EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,780 Monday February 27 1989 D 8523A

WASHINGTON
Economic costs of political evasion
Page 21

World News

G7 to discuss environment and debt at next summit

The Group of Seven leading industrialised countries will discuss environmental and debt-related issues for the first time when they meet in Paris this year. President François Mitterrand of France, host of the summit, wants the agenda to include debt and economic development in the Third World and global environmental issues.

Mr Mitterrand won Japanese support for his plans at a meeting with Mr Noboru Takeshita, the Japanese Prime Minister, at the weekend. Page 6

United 747 inquiry

Investigators are focusing on the role a cargo door latch might have played when a large hole was ripped in the side of a United Airlines Boeing 747 near Hawaii, killing nine people. The FAA ordered modification to the latches last year. Page 20

Bush disagreement

President Bush has said he is not in "total agreement" with Mr Alan Greenspan, the chairman of the US Federal Reserve, about the seriousness of current inflation trends – adding he is not happy about the latest rise in interest rates. Page 3

Japan election move

Japan's Liberal Democratic Party has pulled out of a key provincial election rather than risk defeat because of public concern over controversial tax reforms and the Recruit financial scandal. The decision is the most dramatic evidence so far of the political damage the LDP has suffered as a result of the Recruit affair. Page 6

UK dissent on EMS

Delors Committee of central bank governors, which is considering how to achieve economic monetary union in the European Community, can reach consensus with probably only the UK dissenting from some of the main conclusions, according to European monetary officials. Page 20

US trade concern

Mr Robert Mosbacher, the US Commerce Secretary, has said "narrow national interests" in the European Community may delay liberalisation of EC markets. US companies are concerned that free market directives may work to their disadvantage. Page 4

Argentine credit

Argentina will ask the International Monetary Fund for a $300m credit to help it meet arrears in service payments on its $60bn foreign debt, Economy Ministry sources said. Central Bank president Jose Luis Machinea is to visit the US this week for IMF talks.

Mandela visit

Mrs Winnie Mandela spent more than three hours visiting her husband Nelson in prison, her second visit this month and possibly her longest since he was imprisoned in 1962. Three of Mrs Mandela's bodyguards have been charged with murdering child activist Stompie Moeketsi. Page 3

Arianne strike

The launch of Europe's first weather satellite has been cancelled because of a strike by engineers at the South American launch centre, the Ariane space consortium said.

Bangladesh growth

Bangladesh will be even poorer next year as economic growth slows due to flooding and a worsening trade balance, a World Bank report says.

Greek election

Prime Minister Andreas Papandreou yesterday signalled the start of a bruising general election battle on Sunday, ending on June 18, blaming his opponents for a series of scandals that have rocked the Socialist Government and led to the resignations of seven ministers.

European storms

Storms in Europe at the weekend caused the deaths of eight people in Spain and up to 30 sailors were feared dead after their ships ran into trouble in rough seas.

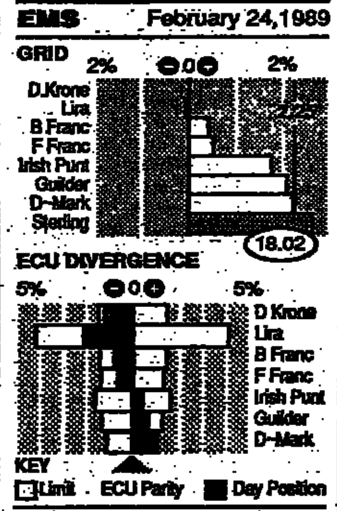
Business Summary

Fokker and GEC propose joint bid to buy Shorts

GEC, the UK electronics and defence company, and the Fokker aircraft company owned partly by the Dutch Government, have made a joint proposal to buy Short Brothers, the Belfast aerospace company the Government intends to privatise.

GEC said yesterday it had proposed with Fokker a joint company to acquire Short Brothers, on the assumption that by the time Shorts was sold it would have "certain genuine net assets" free of debt. Page 20

EUROPEAN Monetary System: The Italian lira touched a seven-week low against its EMS partners last week and the Bank of Italy sold D-Marks, dollars and French francs at the Milan fixing. High interest rates have left the lira vulnerable to the recent switch out of high-yielding currencies such as the Australian dollar. The D-Mark remained the most improved currency followed closely by the Dutch guilder.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

SHELL CHEMICALS, UK chemicals arm of the Royal Dutch/Shell oil group, is expected to announce today plans for a £75m ($132m) pipeline to carry raw materials to two big Shell chemicals plants in north-west England.

The 156-mile pipeline, across the Pennine mountains from Teesside to Manchester, would be the biggest chemicals infrastructure project in Britain for years and could be operating in two years. Page 8

WATER privatisation in UK is up to six weeks behind the Government's schedule, according to confidential documents leaked to the Opposition Labour Party. The disclosure follows recent setbacks to privatisation plans involving higher charges and difficulties in meeting stringent EC rules. Page 8.

FIRST INTERSTATE Capital Markets, UK merchant banking arm of the American West Coast bank, is hiving off its securities business into a new affiliate for regulatory purposes. Page 8

KOOR INDUSTRIES, Israel's biggest industrial concern, has won a seven-week reprieve from a US bank. The threat of compulsory liquidation was lifted after Bankers Trust, the company's principal foreign creditor, said it was withdrawing the liquidation request filed last October after Koor failed to repay a $20m loan. Page 22

UNILEVER, diversified Anglo Dutch group, has made a further tactical acquisition to reinforce its leading position in the world toiletries market through Unichema, part of the Anglo-Dutch multinational's speciality chemicals division, which has bought a 90 per cent stake in Glyco Iberica, a private Spanish manufacturer of raw materials. Page 23

AUSTRALIAN subsidiaries of Ford of the US and Nissan of Japan have sealed an agreement to share production of a medium-sized, four-cylinder car to supplement range and help them withstand local and foreign competition. Page 6.

NYSE, Canadian and Over the Counter prices in Europe issue refer to trading on February 23. Updated prices could not be included due to a computer malfunction. Pages 32, 33, 34

Bush's Chinese celebration upset by ban on dissident

By Peter Riddell, US Editor, in Peking

THE two-day celebration by President George Bush of what he called a "vital and special" relationship between the US and China was last night marred by an embarrassing row over human rights.

Fang Lizhi, a prominent dissident who has called for increased freedom in China, was physically barred by the Chinese police from attending a dinner hosted by President Bush and to which he had been invited. After an attempt to gain entry he went round to the hotel where US journalists were staying and made a dramatic post-midnight appearance in the travelling White House press room. He said the affair was "a sign of the human rights problem in China."

The whole incident was therefore assured of maximum television and press coverage in the US – running directly contrary to the message which President Bush has been arguing about the movement toward reform and freedom in China.

During a round of photo-opportunities and warm mutual complements over the weekend, Mr Bush sought to underline the strength of US – China relations to counter recent Soviet initiatives in the region. Mr Bush himself played down areas of difference, such as Taiwan, missile sales and human rights.

However, Zhao Ziyang, general secretary of the Chinese Communist Party, warned against reformers going too far in urging a multi-party system which would risk social unrest and possibly lead to a rolling back of changes already made.

Mr Bush had referred to a worldwide movement toward greater freedom, including in China. He said this during an interview on Chinese television watched by an estimated 400m to 600m people, just before the peak hour "Mickey and Donald" show.

The importance attached to the relationship was underlined by the disclosure by Mr Marlin Fitzwater, the President's press secretary, that China has been excluded from the current far-reaching review by the Administration of its foreign policy. "We know

Continued on Page 20
Difference of opinion with Greenspan, Page 3; Korean talks, Page 6

Khomeini holds out prospect of improved links with Moscow

By Victor Mallet, Middle East Correspondent, in London

AYATOLLAH Ruhollah Khomeini, the Iranian leader, yesterday held out the prospect of improved ties with the Soviet Union as Iran's relations with other countries continued to deteriorate over the death threat to British author Salman Rushdie.

In a rare meeting with a foreign leader at his home in Tehran, Ayatollah Khomeini had talks with Mr Eduard Shevardnadze, the visiting Soviet Foreign Minister. Both men said they wanted better relations.

The British Government had asked Mr Shevardnadze to raise the Rushdie issue with Ayatollah Khomeini, but the Iranian news agency IRNA said the affair was not mentioned in the talks.

Their talks appeared from the reports by the official Iranian media to be as much religious as political. The Ayatollah apparently again urged Mr Mikhail Gorbachev, the Soviet leader, to think about Islam rather than communism as a solution to social problems.

The meeting was held against a background of further demonstrations around the world by Moslems in support of the Ayatollah's death threats against Mr Rushdie, the Indian-born British novelist, over his book The Satanic Verses. It also came as the Iranian parliament prepared to hold a special debate tomorrow aimed at a formal break in diplomatic relations with Britain.

British officials say that such a break would have no immediate practical implications, since both countries are withdrawing all their diplomats from each other's capitals over the Rushdie dispute, but it could make it more difficult to restore normal relations in the future.

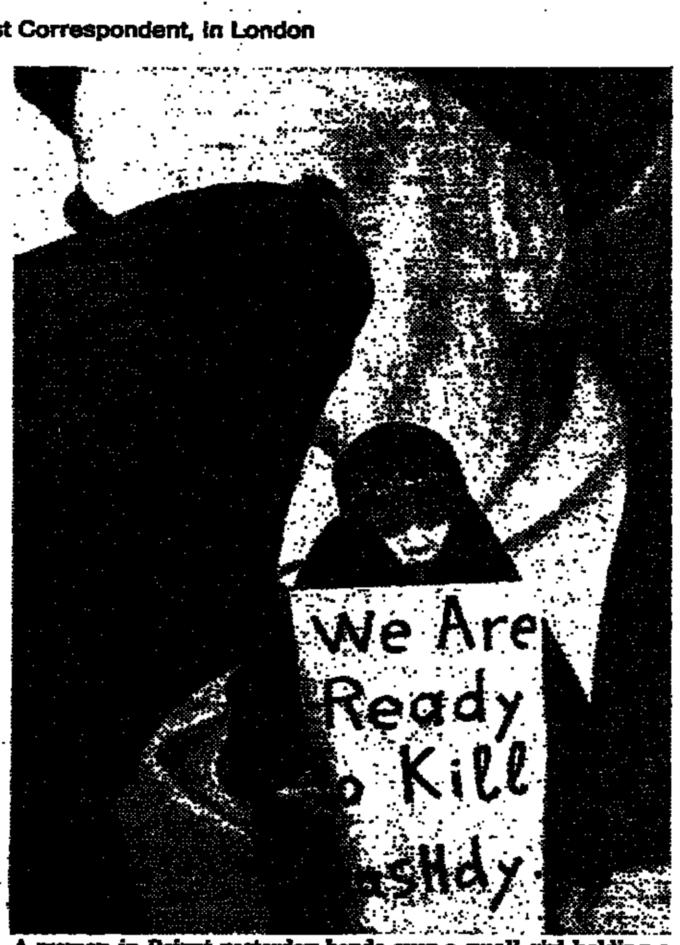
Iran confirmed at the weekend, that it was cancelling a British Technical Week due to take place next month. More than 30 British companies, hoping for a share of reconstruction work in the oil and gas and power supply sectors, had been expected to attend.

In the UK, the Council for Mosques in Bradford, which has the country's largest Moslem population of about 60,000, urged a boycott of all publications of Viking Penguin, publisher of Mr Rushdie's book.

At a seminar in London, British writers called for further action in support of Mr Rushdie. They also called on world leaders to "take firm action to ensure that these threats are withdrawn."

In Lebanon, the US, and in Qom in Iran, Moslem protesters insisted that Mr Rushdie's book blasphemed against Islam. In Denmark, there was one demonstration by Moslems, and a smaller rival protest by Iranian political refugees opposed to Iran's death threats.

Continued on Page 20
Editorial comment, Page 18



A woman in Beirut yesterday bends over a small girl holding a placard supporting the death threat proclaimed by the Ayatollah Khomeini, whose photograph is pasted on the wall behind them.

Spanish bankers face bitter talks on shareholdings

By Peter Bruce in Madrid

A RAPID and potentially bitter reallocation of important shareholdings in two of Spain's biggest commercial banks, Banco Central and Banco Espanol de Credito (Banesto) is likely to start today after the collapse on Friday night of ambitious plans to merge the two banks.

Some 5 per cent of Banesto is at stake and 6 per cent of Banco Central. In the face of unrelenting hostility to the merger, Mr Mario Conde and Mr Alfonso Escamez, the respective chairmen of Banesto and Central, agreed on Friday to end the nine-month merger process. The Bank of Spain, the central bank, supported their decision.

The merger would have created Spain's biggest bank with assets of $50bn. But it was fiercely opposed by Cartera Central, a joint venture between the Kuwait Investment Office (KIO) and two Spanish cousins, Mr Alberto Cortina and Mr Alberto Alcocer.

Cartera would have been the biggest shareholder in the merged bank, but as part of the agreement to end the merger, it is to put its holding of around 2 per cent in Banesto on the market. Just over 3 per cent of Banesto, belonging to Mr Juan Abello, Mr Conde's estranged business partner who resigned as Banesto's vice-president on Thursday, is also up for sale.

The Bank of Spain is opposed to Banesto buying the stock directly because Banesto has been forced during the past few months to buy large amounts of its own equity to keep its share price equal to Banco Central, as required by the merger agreement.

According to reports in Madrid yesterday, Mr Conde will try to buy the stock and distribute it initially to Banesto employees and friendly clients, who would then be free to trade it on the market.

Shares in both Banco Central and Banesto were suspended on all Spanish markets on Friday and it was not clear late yesterday when trading would resume.

Under the merger agreement, both banks had held their share prices equal since October and Banesto shares could fall once they are quoted again. Both were trading at Pta4,750 ($42) when the market closed on Thursday.

Banco Central's shareholding, meanwhile, has been complicated by a decision by the KIO to sell its 48.8 per cent share in Cartera Central, its joint venture with the Albertos, who have a small controlling majority.

KIO's participation in Spanish banking has always been controversial, although the Government has restrained its irritation because of the large, and welcome, industrial investment the group has made in Spain since 1985. But the boardroom infighting at Banesto and the Albertos' overt attempt to stop a merger which the Government had encouraged has made the Kuwaitis uneasy.

The last straw appears to have been the recent intense publicity and lurid magazine pictures surrounding the adulterous affair between Mr Alberto Cortina and the Marquesa de Cubas. KIO is run nominally from London, but observers suggest that the sensitivity inside Moslem Kuwait to such a public scandal cannot be underestimated.

Last week officials close to KIO in Spain were scathing in their criticism of the way the Albertos have handled the

Continued on Page 20

Rise in UK base rates feared as City awaits trade news

By Peter Norman, Economics Correspondent in London

FEARS ARE growing that Britain may be forced this week to raise bank base rates to 14 per cent from 13 per cent if trade figures due on Wednesday prove poor.

Last week's weakness in sterling, when the pound lost more than 2 per cent of its value against the D-Mark, together with higher US interest rates have increased the already strong pressures on Mr Nigel Lawson, the Chancellor of the Exchequer, to produce a cautious budget on March 14.

Even if Wednesday's trade figures are "good", with a current account deficit of around £1.5bn ($2.64bn) in line with the consensus of analysts' forecasts, sterling could still come under pressure later in the week if West Germany's Bundesbank decides to tighten its monetary policy at its council meeting on Thursday.

"The switch in sentiment has left sterling very vulnerable indeed," argues Mr Keith Skeoch, Chief UK economist of stockbrokers James Capel. In his latest review of the British economy, he says a January current account deficit over £2bn could result in a move to 14 per cent base rates.

Such a development would add to the British Government's political difficulties after its candidate was nearly upset by the SDP in the Richmond by-election and the opposition Labour Party's recovery in the opinion polls.

A weekend Gallup poll showed Labour and the Conservatives tied at 35 per cent. A Harris poll, meanwhile, put the opposition party a point ahead of the Tories with 42 per cent of the popular vote, the party's highest share since before the 1983 election.

Higher interest rates would also provide a grim backdrop to Mr Lawson's final budget deliberations by reviving fears that too tight a monetary policy, introduced when nobody has a clear idea whether the Government's present economic strategy will work, could lead to recession.

The Chancellor's hope that the economy can be piloted towards reduced growth, lower inflation and a progressive decline in the current account balance of payments over the next four years is backed in a report today by the London Business School.

LBS Outlook, Page 11.

Olivetti to decide on Intel chip for LSX minicomputer range

By Alan Friedman in Milan and Louise Kehoe in San Francisco

ITALY'S Olivetti group is expected to announce today the choice of a new advanced Intel microprocessor for its new range of LSX minicomputers.

The decision, which has been hotly debated inside the Italian company for more than a year, will see the use of US group Intel's new 860 super chip. This outperforms all existing microprocessors by combining reduced instruction set computer (Risc)technology – which handles simple instructions very quickly – with a conventional microprocessor approach where a set of complex instructions are designed to perform frequently-required functions.

The Olivetti decision, together with Intel's expected unveiling of its 860 at a press conference in California today, could have far-reaching implications for the industry. Intel's new chip represent a major challenge in the fast-growing market for microprocessors used to run computer workstations and multi-user computer systems.

Leaders in this competitive field are Sun Microsystems of California with its Sparc chip, Motorola with the 88000, and MIPs Computer of the US.

Intel is a late entrant into this market but its ties with software developer Microsoft and IBM which have shown interest in the Intel 860, may provide it with a major boost.

Olivetti was originally expected to adopt Sun's Sparc chip along with American Telephone & Telegraph, the US telecommunications and computers group with which the Italian company has had a long-standing relationship.

A year ago the choice by Olivetti of a new microprocessor was among the subjects being discussed by Olivetti and AT&T when the companies re-examined their "global alliance" and decided to pursue a strategy of independent decision-making and a relationship based on commercial grounds.

Olivetti's decision not to use both the Sparc or and Motorola chips in favour of the Intel microprocessor comes after a lacklustre 1988 for the Italian company, which is undertaking a major reorganisation and trying to regain the initiative in the market.

CONTENTS

THE MONDAY INTERVIEW

Mr Bernard Arnault, the chairman of French group Louis Vuitton Moët Hennessy, has a penchant for romantic composers such as Chopin and Liszt, but there is nothing romantic about the way he conducts his business **Page 36**

OVERSEAS NEWS

West German decision on interest rates awaited

By Andrew Fisher in Frankfurt

THE BUNDESBANK, West Germany's central bank, will be at the centre of attention in financial markets this week, the rise in the US discount rate on Friday having provoked speculation of an increase in key German rates.

Import price figures for January, due today, are expected to show a sharp increase, highlighting the Bundesbank's concern over inflation. Provisional consumer price statistics for February should also show a continuation of the January annualised inflation rate of 2.5 per cent.

Much of the rise in annual inflation from the 1.6 per cent shown in December stemmed from consumer tax rises. However, the Bundesbank, whose policy-making council will meet on Thursday, is also worried that companies might raise prices as they reach capacity limits at a time of continuing economic growth.

"The Bundesbank does not want to lose its anti-inflation credibility," said Mr William Ledward, senior European economist with Nomura Research in London. "Logically, the Bundesbank should raise the discount and Lombard rates by half a point." They were last raised by this amount, to 4 and 6 per cent respectively, in January.

Because of the recent mild weather, production should show a gain for January, with figures due shortly. The moderate winter of 1987-88 helped to propel growth at a much faster rate than expected. Mr Ledward said growth could reach 3 per cent this year, though most forecasts indicate about 2.5 per cent.

Although the half-point rise in the US discount rate to 7 per cent made a German rate rise more likely, some economists said the Bundesbank could decide against this to avoid further irritating the French Government, which wants to keep rates down. Also, the D-Mark has strengthened against the dollar, easing the inflationary danger from the currency side.

At the securities repurchase deal with commercial banks last week, rates edged above the Lombard emergency funding rate. Mr Dieter Wermuth, head economist in Germany at Manufacturers' Hanover Bank, said this and the US rate rise suggested a rise in key German rates likely.

Polish premier attends plays by Czech dissident

By Christopher Bobinski in Warsaw

MR Mieczyslav Rakowski, Poland's Prime Minister, attended the premiere in Warsaw at the weekend of two one-act plays by Mr Vaclav Havel, the Czech dissident writer.

Mr Havel was sentenced to nine months' jail in Prague for joining demonstrations commemorating the suicide in 1961 of Jan Palach, a Czech student opposed to the Soviet invasion of his country.

The unprecedented gesture by Mr Rakowski was designed to signal disapproval of the Czech action, demonstrate liberal intent at home and project a reforming image in the West.

After the performance, Mr Adam Michnik, a veteran dissident, read out a protest against Mr Havel's jail sentence.

The plays, staged at the Teatr Powszechny in Warsaw, had been performed there in 1981, just before martial law.

Polish state television ran reports on the production, showing the authorities are keen that their gesture in allowing the plays to be put on now is noted by the public at large.

Soviet reactor shut in earthquake zone

By Quentin Peel in Moscow

THE FIRST of two nuclear reactors at an atomic plant in the earthquake-stricken Soviet Republic of Armenia was closed down at the weekend, in the most dramatic gesture yet by the authorities to ease fears about nuclear energy.

The closure will cause power shortages throughout the three republics of the Trans-Caucasus – Georgia, Armenia and Azerbaijan – all of which relied on the plant outside Yerevan.

Austerity programmes have been drawn up to conserve electricity, including extra night shifts at factories, which are supposed to cut consumption by at least 5 per cent.

The local authorities have already been sharply criticised by the Politburo's earthquake commission for failing to take sufficiently urgent measures to reduce demand, and failing to warn the population about the likely shortages.

The plant's second reactor will be closed on March 18, by which time the authorities hope that warmer spring weather will have reduced demand for electricity.

The first reactor, with a capacity of 405,000 Kw, was completed in 1976, and the second, with a capacity of 410,000 Kw, in 1980.

The decision to close the plant has been taken with extraordinary haste after the earthquake last December, in spite of official assurances then that no damage had been caused to it and that its construction was able to withstand even greater shocks.

The power station has been under attack in Armenia since the Chernobyl nuclear accident in 1986. Opponents say it has had more than 150 "serious malfunctions" and that it should never have been built in an earthquake zone.

Construction of a second nuclear plant in neighbouring Azerbaijan has been halted since the earthquake.

Reuter reports: More nationalist demonstrations were reported at the weekend from Tbilisi, the Georgian capital. Up to 15,000 demonstrators calling for Georgian independence tried to meet in a park. About 200 were arrested.

Defence links on UK-French agenda

By Robert Mauthner and Charles Hodgson

GREATER defence co-operation between Britain and France will be high on the agenda of the one-day meeting of Mrs Margaret Thatcher, UK Prime Minister, and President François Mitterrand of France, in Paris today.

The two leaders will be accompanied at their regular annual summit by their foreign, defence, interior and industry ministers, as well as by Mr Michel Rocard, French Prime Minister. They will base their defence co-operation discussions on a special report prepared by their respective defence ministers.

The need for greater co-ordination of French and British defence policies was voiced by Mr Rocard in a speech to the Royal Institute of International Affairs in London this month. The fact that France and Britain were both nuclear powers gave them a special responsibility for the security of Europe, Mr Rocard said.

Other international issues due to be discussed at the summit include the new tension in relations between the European Community and Iran, after Ayatollah Khomeini's call for the assassination of the British writer Salman Rushdie for his alleged blasphemy against Islam in his novel The Satanic Verses. Britain has been heartened by the speed and decisiveness of its European partners' response with diplomatic sanctions against Iran.

In their talks on European Community matters, Mrs Thatcher is expected to reiterate the British Government's reservations about the proposals on closer economic and monetary links being drawn up by Mr Jacques Delors, European Commission President. She has firmly rejected calls for a European central bank and common currency.

Britain and France are expected to agree on two exchange programmes, one aimed to double the number of youth exchanges between the two countries by the end of the year, and the other to provide more exchanges of British and French diplomats.

Audience loves conciliatory Haughey

VIEWERS of Radio Telefis Eireann, the Irish national broadcasting service, had a choice of viewing on Saturday night, writes Kieran Cooke in Dublin.

On one channel was an early film starring that great communicator of the 1980s, Ronald Reagan. On the main channel was live coverage of a speech by Mr Charles Haughey, Irish Prime Minister, to delegates at the annual convention of his governing Fianna Fail Party.

It was a high-tech performance, delivered with the aid of an autocue in front of giant TV screens, but a lower-key speech: Mr Haughey's rather leaden delivery at times had all the zest of a Soviet Central Committee report in the old days.

This is not to say the speech lacked content. The prime minister made his most direct appeal yet to the Unionists in Northern Ireland for talks to bring an end to violence.

Mr Haughey's language was far more conciliatory than in the past: he talked of "our unionist countrymen" and the great future that was possible in a "partnership of equals" between the different communities in Ireland in post-1992 Europe. "The economic needs of both parts of Ireland are steadily converging," he said.

Fianna Fail sees itself as the party of Irish Republicanism. Yet the call for Irish unity – a central article of party faith – was far less strident than before. "Our commitment is to unifying the Irish people in peace and harmony and, in that unity, to achieve the highest possible level of prosperity for all the people of this island of Ireland," said Mr Haughey.

Fianna Fail (meaning The Soldiers of Destiny) is full of confidence. Mr Haughey's popularity and that of his party have never been higher.

Since it took power two years ago Mr Haughey's Government has brought about a small revolution in the country's finances. Radical cuts in public spending have saved Ireland from a debt crisis of Latin American proportions. Mr Haughey told his audience of the country's record balance of payments surplus, its inflation rate of only 3 per cent and the benefits that will come with Structural Fund payments from Brussels.

He said the Irish economy would achieve an average annual growth rate of 3 per cent or more over the next five years, and promised further reductions in personal taxation in the hope of curtailing high emigration rates. He also promised action on unemployment which, at 18 per cent, is among the highest in Europe.

The party faithful interrupted Mr Haughey's speech with several bursts of prolonged applause. A group which tried to protest about Ireland's extradition agreement with Britain was quickly and firmly dealt with by party security guards.

The premier was seriously ill at the end of last year. "Charlie is Back" buttons were on sale. "We Irish are an indomitable race," said Mr Haughey. "The times are favourable, the opportunities beckon, our spirits are high. Let us take the tide at the flood." The audience went wild.

Moves to end deadlock in Swedish pay talks

By Robert Taylor in Stockholm

LAST-DITCH attempts will be made today to achieve a national wage agreement covering most of Sweden's 1.2m private-sector workers.

Negotiators from the blue-collar union organisation, the LO, and the employers' body, the SAF, want a deal. Neither side relishes industrial strife.

Last week, the two sides came near breakdown in the talks. Intervention by the government looks necessary to end the deadlock. Bargainers would like to see a tax-cutting gesture by Mr Kjell-Olof Feldt, Finance Minister, making a central agreement more palatable on the shopfloor.

With inflation at more than 6 per cent a year, union leaders and employers recognise the need for a central agreement taking into account industrial competitiveness and rising prices.

Negotiators would like a two-year national pact, which would strengthen the central collective bargaining system. However, this seems unlikely just now.

SAF has proposed a 3 per cent wage framework, with larger pay rises for lower wage earners and compensation if inflation accelerates in the next year. With a planned 1 per cent cut in the tax rates, this would have meant a 4 per cent deal. The LO has been seeking a wage rise of 7 to 8 per cent across the board.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Dec '88	Nov '88	Oct '88	Dec '87
US	17,363	17,997	19,603	13,088
UK	41,116	41,063	39,332	38,556
W Germany	53,315	56,332	54,540	72,893
Japan	90,514	89,964	85,502	41,116
Belgium	8,306	8,369	7,962	8,363
Netherlands	14,542	15,225	14,345	14,174
Italy	32,501	31,903	29,819	17,363
	Oct '88	Sept' 88	Aug '88	Oct '87
France	23,194	25,335	26,320	29,634

Source: IMF

Shamir sees no need to hurry peace plans

By Andrew Whitley in Jerusalem

TIME is working in Israel's favour and there is no need to rush into preparing peace plans, Mr Yitzhak Shamir, the Prime Minister, said yesterday.

According to the state radio, Mr Shamir assured his colleagues in the coalition cabinet that Palestinians in the occupied territories were pushing the Palestine Liberation Organisation in the direction of Israel's declared positions on peace negotiations.

As he spoke, troops in the West Bank city of Nablus were responding to the killing by Palestinians of a 25-year-old reserve paratrooper on Friday. At least 150 residents of the city's casbah district, where the incident took place, have already been detained.

Visiting the scene, Lt Gen Dan Shomron, the army's chief of staff, warned local residents they would pay a high price for the death of Sgt Binyamin Meisner, the fifth Israeli soldier to die in the occupied territories since the uprising began. He refused to specify what steps might be taken.

In the Gaza Strip, troops yesterday shot dead a 20-year-old demonstrator in Gaza City. His death brought the Palestinian toll over the past 15 months to nearly 400. Scattered clashes also took place in the occupied territories on Saturday. In one incident, a six-year-old girl was left in critical condition after being shot in the head.

In a worrying new development for Gazans over the weekend, unknown gunmen attacked two Palestinian hospital workers accused of being collaborators.

● A seven-year border dispute between Jerusalem and Cairo was resolved yesterday, when the Israeli Cabinet approved the terms of the handover of the Taba enclave to Egypt.

Agreement was recently reached whereby Egyptian interests will pay $27m

FINANCIAL TIMES
Published by the Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Bracken House, Cannon Street, London EC4P 4BY. © The Financial Times Ltd, 1989.
FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage paid at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Financial Times (Scandinavia) Ltd. Ostergade 44, DK-1100 Copenhagen-K, DENMARK. Telephone (01) 13 44 41; Fax (01) 935335.

OVERSEAS NEWS

Tower abjures alcohol in hope of swaying votes

By Nancy Dunne in Washington and Peter Riddell in Peking

MR JOHN TOWER, the beleaguered nominee for the US defence secretaryship, took a televised pledge to abstain from alcohol consumption during his tenure of office.

This was in the hope of reversing the rejection of his nomantion last Thursday by the Senate Armed Services Committee and winning the approval of the full Senate, in a vote expected towards the end of the week.

He read a letter from his doctor which concluded there was no physical evidence that the former senator had ever been an alcoholic or dependent on alcohol.

"Twelve years ago I gave up spirits," he said. "I haven't tasted Scotch in 12 years." He said he drank wine only with meals, but he occasionally had martinis and vodka.

The high-profile strategy for winning Senate approval was plotted nearly 9,000 miles away by President George Bush and his senior advisers between meetings with Chinese leaders. They see the issue as an important test for Mr Bush early in his presidency.

The advisers' strategy is to try to turn public opinion by arguing that none of the allegations against Mr Tower has been substantiated. They hope a shift in public mood will influence wavering Democratic senators.

The president has talked to several senators from the Far East and is due to meet a dozen senators in Washington tomorrow after his return from the Far East.

An ABC poll found 10 Democrats and three Republicans still undecided about their votes. Even if the president can keep all 45 Republican senators in line, he must attract the support of five Democrats to achieve a tie, which could be broken by Vice-President Dan Quayle.

Also on television yesterday, Senator Sam Nunn, influential chairman of the Armed Services Committee, threatened to reopen confirmation hearings and to subpoena witnesses to Mr Tower's alleged drinking habits. He also raised new concerns about Mr Tower's behaviour as a senator and a defence industry consultant.

Sudan alert on eve of generals' deadline

THOUSANDS of troops were on combat alert in Khartoum, Sudan's capital, yesterday on the eve of a deadline for political reforms ordered by rebellious generals, diplomats said, Reuter reports from Khartoum.

Last Monday the army gave Prime Minister Sadeq al-Mahdi a week to meet their demands, including the formation of a broad-based "government of national salvation".

Western diplomats and military experts said they thought airborne and armoured brigade soldiers were among about 5,000 troops on combat readiness in Khartoum.

"The plan is for all units in the capital [about 10,000 men] to go on full alert as the deadline comes near on Monday," said one expert.

Mr al-Mahdi, in reply to the army ultimatum, has warned the military against attempting a coup.

The military in Sudan has seized power three times since independence in 1956.

The ultimatum, dated February 20, complained that the army was poorly equipped and did not receive enough support from the government. The generals also said the Government should have a broader base.

Central America seeks to turn dream of a common market into reality

The region is looking to Europe for help, writes Tim Coone

IT was 20 years ago, in June 1969, that the outbreak of the so-called "football war" between Honduras and El Salvador put an early end to the Central American Common Market, set up under the Alliance for Progress which President John Kennedy of the US had inspired. Trade imbalances and industrial rivalries, rather than football, were the real motives for that brief but bitter war, which ended trade between Honduras and El Salvador for many years.

Since then, the Sandinista revolution in Nicaragua, guerrilla wars in El Salvador and Guatemala, and the war between the Sandinistas and Honduras-based Contra rebels, combined with a foreign exchange crisis throughout the region, have left the market integration proposal a moribund dream.

Over the next two days, however, the new regional peace plans, the revival of the CACM and solid finance to back it will be the principal topics of discussion at a highly significant meeting being held at the industrial city of San Pedro Sula in the north of Honduras.

The fifth European Community-Central America ministerial meeting, otherwise known as San José V, (the first was in San José, Costa Rica, in 1984) is bringing together the foreign ministers or their deputies from the 12 EC countries and counterparts from the six main countries on the isthmus, including Panama which wants to join the CACM. Ministers from the eight-nation Latin American Contadora Support Group are also attending. Their deliberations are expected to produce two important documents.

Having failed to stimulate peace and prosperity in Central America, the Americans may be obliged to give the Europeans a greater say

According to members of the technical committees drafting the documents, the EC can be expected to give firm and unequivocal backing to the decisions taken at the recent El Salvador presidential summit, at which solid and unanimous proposals were made to end the war in Nicaragua.

The EC is also expected to make a financial commitment of about Ecu 115m (£74.8m) to support development projects and to increase substantially the capital of the Central American Bank of Economic Integration by cash injections with the aim of revitalising the CACM.

Coming immediately after the El Salvador summit, with the Bush administration still without a policy on Central America, San José V will prove to be the most substantive of the five EC-Central America ministerial meetings so far.

The US policy vacuum in the region has allowed the Central Americans, with the support of the Europeans, to seize the initiative. One European diplomat said: "The best thing the Bush administration can do now is to continue as it is doing – to take a back seat and give diplomacy a chance to resolve the region's crisis."

Over the past 10 years, the EC has provided the Central America countries with about Ecu 350m in aid, in addition to the bilateral aid provided by member countries. According to an EC diplomat in Honduras, Community aid to Central America has grown from Ecu 40m in 1984 to more than Ecu 100m in 1988.

This remains small alongside the estimated $800m to $900m in US economic aid to the region last year, most of which was channelled to El Salvador and Honduras, but it represents a significant upward trend and is expected to be reinforced today and tomorrow in San Pedro Sula.

Central America's economic crisis is such that no offer of economic aid can now be ignored by any of the region's leaders. The Europeans are sure to emphasise, however, that peace there is the pre-condition for higher disbursements of aid now under discussion, such as the $4.4bn economic cooperation plan for Central America, proposed by the UN General Assembly last May and to which the EC can be expected to be an important contributor.

If the EC throws its weight behind the Central American peace plan with the promise of more aid, the US will be left with little option but to follow suit eventually. The US, having failed to stimulate peace or prosperity in the region during the last 10 years, and seeing its prestige suffer, may be obliged now to give the Europeans a greater say in what it has considered its own backyard for 150 years or more.

Mandelas meet after murder charges

MRS Winnie Mandela, the South African anti-apartheid activist at the hub of a scandal over murder charges linked to her squad of private bodyguards, spent more than three hours with her husband Nelson in prison yesterday, Reuter reports from Cape Town.

Three of her bodyguards have been charged with murder of a boy activist, Stompie Moeketsi, who was buried on Saturday. She has not been charged, but police have raided her home in the black township of Soweto.

A grim-looking Mrs Mandela refused to talk to reporters after the visit to the Victor Verster prison at Paarl, near Cape Town, where Mr Mandela lives in a warden's villa.

It was her second visit this month and probably one of the longest since he was jailed in 1962. Mr Mandela is known to be much disturbed about the way the scandal is harming the anti-apartheid cause.

Representatives of two big South African anti-apartheid groups – the United Democratic Front (UDF) and the Congress of South African Trade Unions (COSATU) – arrived in Zambia yesterday for talks on the matter with the African National Congress.

Bush admits to difference of opinion with Greenspan

By Peter Riddell, US Editor in Peking

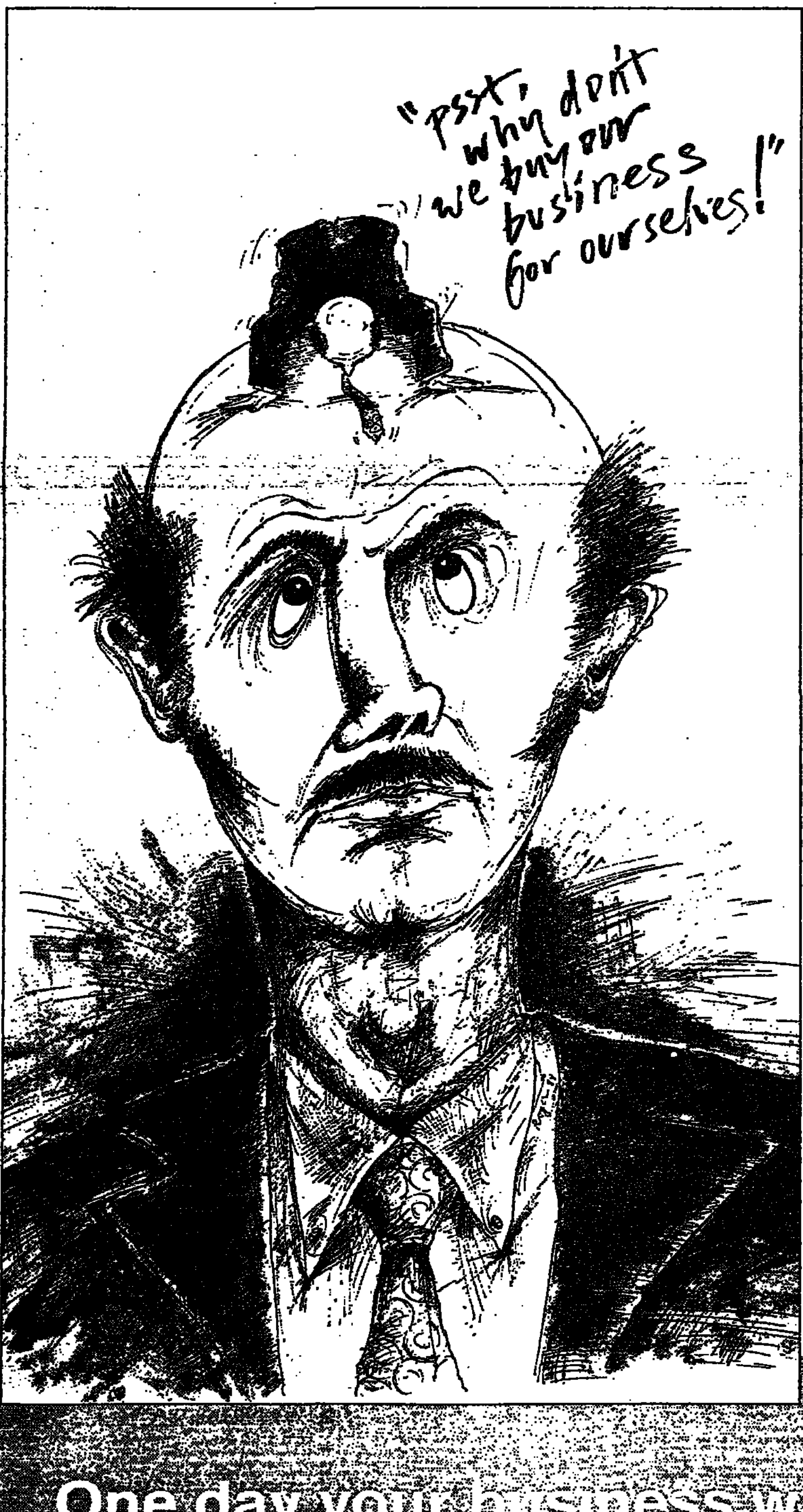
PRESIDENT George Bush of the US has admitted he is not in "total agreement" with Mr Alan Greenspan, chairman of the US Federal Reserve, about the seriousness of current inflation trends, adding that he is not happy about the latest rise in interest rates.

Mr Bush's comments, made during his present trip to the Far East, are his first since Mr Greenspan underlined last Wednesday his willingness to tighten monetary policy to counter inflation. On Friday, the Fed increased the discount rate.

Mr Bush said that, in spite of the latest official figures, he was not "overly concerned" about inflation. He also said he had discussed the economic policy outlook with Mr Greenspan last Tuesday.

Admitting that higher interest rates were not helpful in deficit reduction, Mr Bush attempted to use the latest increase to argue "even more forcefully that we need an agreement on the Budget".

Reuter reports from Washington: Mr Richard Darman, Budget Director, said in a television interview on Saturday he disagreed with Mr Greenspan on the threat of inflation. He said he believed the economy would grow more rapidly than Mr Greenspan expected, and did not think a policy based only on tighter money would be good.



OVERSEAS NEWS

US fears 'special interests' in EC after 1992

By Nancy Dunne in Washington

MR ROBERT Mossbacher, US Commerce Secretary, fears that "narrow national interests" in the European Community might delay the liberalisation of European markets after 1992, and that "special interests" would seek to deny its benefits to non-EC countries.

At a conference in Washington on Friday, he said US government analysts had concluded that, for the most part, market integration would benefit US companies.

However, they were concerned that implementation of the directives being formulated would work to the disadvantage of US companies.

The analysts were particularly concerned that regional standards would favour European producers.

Mr Mossbacher has asked for a US seat at the EC bargaining table, "at least as an observer", to keep an eye on developments. The current process "does not provide adequate transparency or the opportunity for US firms to provide meaningful comments," he said.

"While I do not foresee a 'fortress Europe', it would be naive to believe that there will not be a few strongholds here and there," he added.

He asked for "a meaningful exchange of information," saying that US companies cannot wait "until the regulations are cast in concrete before we discuss our concerns."

The Secretary said the US would not accept any EC concept of reciprocity which "violates principles of national treatment and non-discrimination".

His concerns were echoed by Senator Max Baucus, a Montana Democrat, who denounced the EC application of "reciprocity" to financial services as "discrimination, pure and simple," which would make US banks and finance companies "second class operators" in Europe.

"There are rumours coming out of Europe that reciprocity could also be applied to other sectors," the Senator said. "If reciprocity becomes a code word for protectionism, we could have a very serious problem on our hands."

Ms Rosanne Ridgway, Assistant Secretary of State for European and Canadian Affairs, said that she foresaw protectionist pressures on a future European defence industry.

However, it would be a contradiction to tell Europe to help provide for its own defence and then to say, "we're terribly sorry – what we meant was that you should send us a cheque and buy American."

SHIPPING REPORT

Tokyo funeral hits trade

By Rachel Johnson

THE OWNERS of white oil tonnage in the Far East experienced very slow trading last week, partly because of the closure of the Japanese markets for the funeral of Emperor Hirohito.

The trading was further slowed by the numerous vessels available in the area which had arrived from Europe.

The black oil market showed signs of improvement only in West Africa, where the number of charterers raised Worldscale rates. The tanker market was especially weak in the Gulf last week, shipbrokers Galbraith's reported.

Many of the vessels in the area were being fixed only for short voyages to the Red Sea and the Far East. This was depressing the market, compared to this time last year, when many large crude carriers went via the Cape to Europe or the US.

In contrast, business concluded in the western hemisphere, especially from the Mediterranean loading terminals, was profitable for owners.

Kosovo pit strikers seek pledge on demands

ETHNIC Albanian miners in Kosovo province who have pushed the region to the brink of emergency rule refused yesterday to end their week-long underground strike, Tanjug news agency said, Reuter reports from Pristina.

It said the 1,300 zinc miners refused to leave their pit until they received written guarantees that their demands had been met.

Earlier, the way appeared clear for an immediate end to the strike. The Yugoslavian news agency had quoted Mr Rahman Morina, the Kosovo Communist Party chief, as saying he expected the 1,300 zinc miners in Mitrovica, 180 km (110 miles) south of Belgrade, to end their political protest yesterday.

"We expect them to come out of the pits," Mr Morina said. He did not say what agreement had been reached with the miners, who have remained 1,000 metres (3,300 feet) underground since last Monday.

They triggered a general strike in Kosovo, an autonomous province of Yugoslavia's biggest republic, Serbia, and prompted Belgrade to send in paramilitary police.

The collective State Presidency, Yugoslavia's highest constitutional body, ordered the security clampdown on Saturday to prevent any new outbreak of ethnic Albanian unrest over Serbian attempts to take control of the province.

Tensions between Kosovo's 1.7m Albanians and 200,000 Serbs and Montenegrins spilled over into bloody riots in 1981.

Police sources in the Kosovo capital of Pristina, 200 km south of Belgrade, said police had been ordered to prepare for possible action.

On Saturday, police and troops guarded public buildings after witnesses reported seeing tanks and armoured personnel carriers. Political analysts said the province bordering Albania was close to a state of emergency.

President Raif Dizdarevic on Thursday warned the miners that "all legal and constitutional means" would be used to prevent turmoil, a threat to use emergency measures and troops.

Car makers dispute local content

Kevin Done on the troubles following Japanese moves into European production

EXECUTIVES of Toyota, Japan's leading car maker, continue their search this week for a suitable site in the UK for the company's first European car assembly plant. The search comes as European governments and the European Community's traditional car producers are in disarray about how best to cope with this latest threat to the established order.

At the heart of the confusion lies the thorny issue of local content and how best to ensure that Japanese assembly plants are more than just screwdriver operations. For the indigenous European car makers the idea of a strict regime on local content is appealing as a way to make Japanese assembly in Europe as costly as possible.

European car makers argue that, if the so-called Japanese "transplant" assembly operations cannot be kept out, they should have at least a European cost base imposed on them to ensure adequate benefits for the European economy in terms of employment, component purchasing and the transfer of technological knowledge.

To that extent, most car makers and EC member states are in agreement. However, there is a wide divergence of views on how to measure local content, on what local content requirement levels should be set (60, 80 or 90 per cent have all been suggested), and on whether to make special demands for the local manufacturing of key noble components, such as engines, transmissions or high-value electronic components.

Sensitivity, not least in Paris, towards the penetration of the French market by Japanese cars built in the EC was demonstrated late last year, when a trade row blew up between France and the UK over access to the French market for Nissan's UK-built Bluebird cars.

France decided to re-write the EC rule-book and declared unilaterally that the Bluebirds shipped from Nissan's plant at Sunderland in north-east England would be treated as Japanese imports – therefore subject to the French import quota – until they had 80 per cent local content. It was never specified how the 80 per cent was to be calculated.

The UK Government's championing of the Nissan cause was well calculated to appeal to Toyota as it hunted for a warm welcome on European shores.

The UK appears to have won its fight but has been keeping a low profile to avoid further controversy. In mid-January, however, Mr Alan Clark, a Trade Minister, said in a written parliamentary answer that the Commission had ruled that, "in the present state of Community law, there would be no justification, as far as the free circulation of goods is concerned, for treating Nissan UK production differently from other cars produced in the Community."

Nissan's UK-built Bluebirds have a local EC content of about 70 per cent, due to be raised to 80 per cent in 1990.

There are no specific regulations in the EC as to local content levels. Community rules state only that, for an item to qualify as an EC product, its "last substantial manufacturing operation" must have been performed in the EC.

In the absence of EC guidelines, most practical work on local content has been carried out in the UK. This is no surprise because the UK has been the recipient of the lion's share of the first wave of Japanese auto industry investment. This has taken the shape of ventures by Nissan and Honda (a production agreement with Rover Group) in cars, and by Isuzu and Suzuki, in a venture with General Motors of the US, in light commercial vehicles.

In all these cases the British Government has reached agreements that stipulate the vehicles shall first be considered as UK-built, and therefore qualify for free access to EC markets under current rules, when they reach 60 per cent local content, but that the local content must be raised to 80 per cent within a transition period of two to three years.

(In the recent dispute with France it was widely, but mistakenly, believed that the UK was supporting a modest 60 per cent local content level in opposition to French demands for 80 per cent. In fact, the UK insists on a level of 80 per cent local content but allows manufacturers to build up to this level over a transition period.)

Until last week, it appeared that a consensus had emerged around the 80 per cent figure, but the threat of the Toyota plant has clearly led to a further hardening of attitudes in France.

According to Mr Jacques Calvet, the powerful chief executive of Peugeot, "fixing the local content of a Japanese car made in Europe at 80 per cent is not enough. The level should be much closer to 100 per cent than 80."

There is much at stake. As a recent report* from the UK-based Motor Industry Research Unit points out, "a low figure

1992 THE EUROPEAN MARKET

could result in over-capacity, a plethora of Japanese components transplants and the centralisation of research and development facilities in Japan. A complete lack of local content regulations could result in disaster for the domestic economy. The imposition of a high local content figure may result in discouraging investment altogether."

While the level of content remains a matter of contention, so does the method of calculation.

Mr Cesare Romiti, managing director of Fiat, the Italian automotive group, inflamed the UK-French row over the Nissan cars by claiming that the actual EC content of the car was substantially lower than the 70 per cent level stated jointly by the UK Government and Nissan.

Mr Romiti told the Financial Times: "We have bought a British-built Nissan and have dismantled it piece by piece." He claimed that only 21 per cent of the car was definitely of EC origin. The Japanese content was still as high as 46 per cent, while Fiat had been unable to identify the origin of 33 per cent of the car.

The Fiat and UK figures are based on quite different methods of calculating local content.

The UK method is a "value-based" system which takes the ex-works price of the car and subtracts the value of the non-EC components.

The Fiat method is a "cost-based" system, which seeks to take into account the full cost of production of the car, measuring the cost of each component and including all overheads and design and engineering costs. (Fiat is also keen that any local content formula should specifically include local sources of high-technology items including engines and transmissions.)

It is far from clear that the UK regime would satisfy the hardliners in the Community, but it is the framework that Lord Young, UK Secretary for Trade and Industry, has indicated will be negotiated with Toyota.

The big attraction of the UK local content regime is that it is simple to operate and simple to police. Mr Ian Gibson, deputy managing director of Nissan Motor Manufacturing UK, Nissan's Sunderland-based car assembly operation, says the UK Government chose a value-based, rather than a cost-based, system because the components in the formula could easily be audited by government agencies.

The value of the non-EC imported components is monitored by the Customs and Excise authorities, while the ex-works value can be monitored by the Inland Revenue through the company's accounts and tax returns.

Mr Gibson says: "It provides value controls. If a company wanted to cheat, it could increase the local content by reducing the price of the Japanese components. That is not possible because the Customs and Excise values each component imported.

"We declare values for each part shipped and the Customs and Excise audits this. It has the same pricing information from Honda, Ford and Peugeot. It would be obvious if Nissan only charged for a crankshaft half what Honda charges Austin Rover."

The UK Government insists that at 80 per cent – on its formula – the investor is allowed "a reasonable commercial freedom", but at the same time he or she must create "a substantial manufacturing presence that is in no way a screwdriver operation".

It has calculated that, to meet 80 per cent, it is necessary for a vehicle maker to have the full assembly plant operations of press shop, body assembly, paint shop and final assembly, as well local sources of engine or transmission.

The UK audit formula for Nissan takes the company's average performance over a 12-month period. It breaks this down on a month-by-month basis, and model by model. Given the disparity in car prices in Europe, the ex-works price is calculated market by market.

Other ways to measure local content are in use around the world. In South Africa, for example, local content is measured by weight, a crude measurement clearly excluding the vital technology content and value of a component.

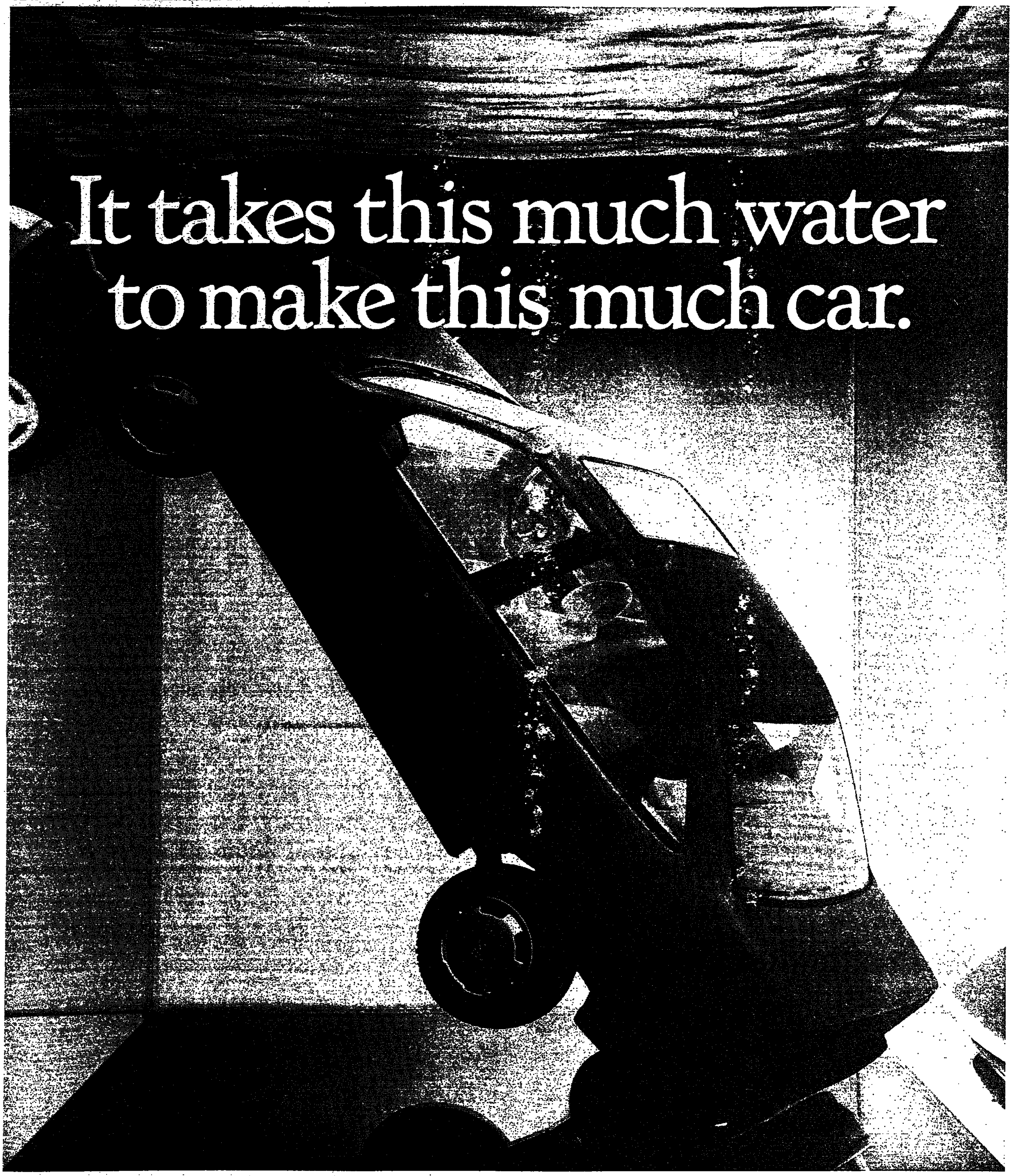
For the long term, Mr Gibson agrees that the origins of the sophisticated electronics systems, such as anti-lock braking and engine management systems, are among the most crucial items.

He says that, as Nissan develops its UK assembly operations and moves from 70 per cent to 80 per cent local content, both its braking and engine management systems will be bought in Europe. Suspension systems will be European. Engines will be assembled in Britain, increasingly from EC components, and Nissan will machine some parts itself. However, Nissan will continue to take the engine block as a rough casting from Japan.

The only major vehicle system that will continue to be imported from Japan is the transmission. Nissan has no plans to make this in Europe.

The local content issue is complex, but must be resolved before the EC can implement a comprehensive external trade policy for Europe's biggest industry, which is approaching the single European market in a state of confusion.

**Automotive Trade Restrictions in Western Europe; Motor Industry Research Unit, 3 Dove Street, Norwich, NR2 1DE.*



One day, there'll be a car that runs on water.

In the meantime, here's one that's made using water.

6,590 gallons of the stuff.

It's not unique though. All cars are made this way. Or rather, all car manufacturers use copious amounts of water to make cars.

From the water used to cool the welding machinery, to water-based paints to paint them.

Plastic, rubber, carpet, cloth, glass, wire, all need water in the making.

At the end of the production line, the whole car is bathed in water.

A simple enough check to see that the car doesn't take in any unnecessary water later in its life.

It's not just cars that use a lot of water in their manufacturing process. Most things that are made are made with water.

Either to cool, dilute or wash. It's a vital industrial component.

And it's on tap at the factory. Which will be very handy for filling up the first water-powered car.

The 10 Water and Sewage Businesses of England and Wales.

OVERSEAS NEWS

G7 leaders to discuss debt and environmental issues

By Stefan Wagstyl in Tokyo

ENVIRONMENTAL and debt-related issues will be high on the agenda for the first time at an economic summit when leaders of the G7 group of seven leading industrialised countries meet in Paris this year.

President François Mitterrand of France, host of the summit, wants the agenda to go beyond traditional topics such as macro-economic policy and exchange rates, to include debt and economic development in the Third World and global environmental issues.

Mr Mitterrand on Saturday secured Japanese support for his proposals at a meeting with Mr Noboru Takeshita, the Japanese Prime Minister. Mr Mitterrand was in Tokyo for the funeral of Emperor Hirohito.

The problems of Third World debt and development have figured prominently at previous summit meetings, even though they have often been overshadowed by discussions on economic policy co-ordination among the leading industrial countries. Environmental issues have not in the past been high on the summit agenda, but growing concern about the impact of industrial development on the environment has moved closer to the middle of the political stage in many countries.

According to Japanese officials, Mr Mitterrand told Mr Takeshita that the spread of deserts and the destruction of rain forests in the Amazon were issues which required "solution on a global scale".

The meeting between the two leaders was one of many held in Tokyo since the middle of last week, when representatives of 163 countries started gathering for the emperor's funeral. Among the most substantial results of this "funeral diplomacy" was an agreement by China and Indonesia to recognise each other.

Japanese commentators said many of the meetings involved Third World countries asking Japan for aid. In five days it was deluged with aid requests from Third World leaders visiting Tokyo for the funeral.

In marathon meetings, Mr Takeshita and his Foreign Minister, Mr Sosuke Uno, were generally positive in their replies to the requests without being specific, the Foreign Ministry said.

Reuter reports from Washington: The US has told other rich countries that it is not ready to proceed with talks on replenishing funds for the International Development Association (IDA), the World Bank's soft-loan affiliate, monetary sources said.

US officials told a gathering of IDA deputies that they could not continue the replenishment talks for now because the Treasury was preoccupied with its review of third-world debt and other higher-priority issues.

Two Koreas top of Roh agenda for Bush

By Maggie Ford in Seoul

PRESIDENT Roh Tae Woo of South Korea has moved relations between the two Koreas and Seoul's opening towards the eastern bloc to the top of the agenda for his talks today with President George Bush of the US.

The new US leader will spend six hours in Seoul, addressing the national assembly and meeting US residents, including members of the military, after his talks with Mr Roh.

Student and dissident groups have announced rallies to coincide with the visit, but the Seoul government is likely to deploy thousands of riot police to deter the demonstrators.

President Roh is expected to discuss the rise in anti-Americanism in South Korea with his US counterpart.

Seoul is already negotiating with the US military on the removal of an army base in the centre of Seoul and the revision of an agreement on the treatment of offenders by military personnel.

US diplomats have indicated that Mr Bush will reaffirm the commitment by Washington to defend South Korea as long as Seoul requests help. The US has 43,000 troops on the peninsula.

However, Washington has supported Seoul's northern policy, designed to open relations with China, the Soviet Union and other eastern bloc states, including North Korea.

Mr Bush said in Peking at the weekend that the prospective thaw between China and the Soviet Union was likely to help maintain stability in Korea.

He welcomed the initiative by Mr Roh last year for a six-country conference on the two Koreas — including the US, the Soviet Union, China and Japan — adding that such a conference would require careful preparation and a co-operative attitude.

In his speech to parliament, the US president is expected to praise South Korea's move towards democracy and to touch on the trade dispute which bedevils bilateral relations.

US group raises $19m for Taiwan hi-tech project

By Louise Kehoe in San Francisco

HAMBRECHT and Quist, the San Francisco investment banking and venture capital firm, has raised a $19m (£10.6m) venture capital fund in Taiwan for investment in high-technology ventures both in Taiwan and elsewhere.

The fund is the second raised by H&Q Taiwan, a subsidiary of Hambrecht and Quist, reflecting the fast growth of US-style venture capital investment on the Pacific rim.

"Venture capital is playing a key role in Taiwan's development," said Dr Ta-lin Hsu, managing director of H&Q's Asia Pacific department. "It is becoming an important source of funding for entrepreneurs looking for alternatives to traditional bank funding to finance their companies."

H&Q Taiwan serves as the investment manager of Han-Tech Venture Capital, a $30m venture fund organised in 1986, the first in Taiwan to emphasise high-technology investments.

LDP pulls out of key poll over Recruit scandal

By Stefan Wagstyl in Tokyo

JAPAN'S ruling Liberal Democratic Party has pulled out of a key provincial election rather than risk defeat because of public concern over controversial tax reforms and the Recruit financial scandal.

The decision is the most dramatic evidence so far of the political damage the LDP has suffered as a result of the Recruit affair.

While the position of Mr Noboru Takeshita, the Prime Minister, is in no immediate danger, the scandal is severely limiting his room for manoeuvre, especially in introducing necessary, but unpopular, measures such as the tax reform due to come into effect in April.

The party's decision to withdraw from the forthcoming election for the governorship of Miyagi Prefecture, in northern Japan, leaves a Socialist-backed and a Communist-backed candidate free to fight it out in what has long been an LDP stronghold. The vote is to be on March 19.

LDP leaders faced problems two weeks ago, when Mr Kazuo Aichi, the party's original candidate in the Miyagi election, decided to quit the race. Mr Aichi, a member of the lower house of the Diet (Parliament), withdrew after admitting receiving political donations from Recruit. While not illegal, these ties dimmed his chances of victory.

Mr Hiroshi Mitsuzuka, Minister for International Trade and Industry and the LDP's top man in Miyagi, desperately tried to find another candidate.

His failure to do so was widely seen as evidence of disarray in the LDP. But the party's Diet majority is so large that the position of the government itself is not in danger.

The scandal broke last summer when it emerged that Recruit, a business information company, had distributed shares on favourable terms in Recruit Cosmos, a property subsidiary, to leading politicians, businessmen and bureaucrats.

Gandhi's moment for steel nerves

David Housego on the Indian economy before Delhi's budget

FOR any developing country opening its economy to increased competition and a freer flow of imports, there comes a moment that requires nerves of steel.

The Government of India's Economic Survey, published over the weekend as a prelude to the budget, due tomorrow, shows that the administration of Mr Rajiv Gandhi is at that moment.

The survey, written by the liberal economists who dominate economic policy-making, is thick with warnings to their political masters on the need to curb continuing large budget deficits because of the dangers for inflation, the balance of payments and the overall cost competitiveness of the economy.

For Mr Gandhi, the Prime Minister, who initiated the current liberalisation programme but will face a difficult general election this year, the political pressures now point towards more populist measures.

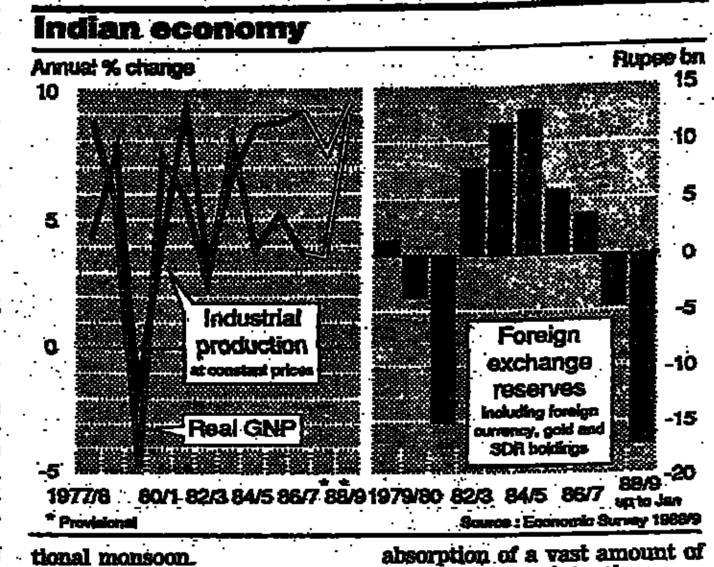
His first budget in 1985 was clearly directed at the middle class. He now needs to bolster his support among the poor and jobless who represent the bulk of the voters. Congress Party leaders have been urging on him a poverty alleviation programme (new job-creation schemes, free children's lunches and subsidised saris for women) that would give the party a more leftward-looking image.

In practice, Mr Gandhi cannot go too far in increasing expenditure without damaging his own electoral chances through further increases in prices. The main question behind the budget concerns where he will draw the line and what the compromise will mean in terms of the colours in which he presents himself at the polls.

A pre-election economic survey must contain a good deal of propaganda on the government's behalf. However, it also shows — via some reading between the lines — the strengths and shortcomings of the Indian economy after five years of Mr Gandhi at the helm.

The most striking feature is that India seems to have moved to a higher growth path, with real GDP now expanding at an average of 5 to 6 per cent, compared to just over 3 per cent in the 1960s. The economy is expected to grow at a record 9 per cent this year on the back of an exceptional monsoon.

Indian economy



* Provisional. Source: Economic Survey 1988/9

Almost more important in terms of underlying economic resilience is the growth of 3.5 per cent last year, despite a severe drought.

The main factor contributing to this increased growth is a higher level of manufacturing output. Industry is reaping the benefits of a greater freedom to expand capacity, to import foreign technology, to restructure through mergers and takeovers, as well as from the stimulus of increased domestic competition.

Bottlenecks of shortages of power or raw materials are diminishing. Industrial output has grown in real terms by an annual average 8.6 per cent over the last five years, or double the rate of the previous five. The potential exists for an even higher growth of industrial output, as consumer industries are discovering, because of India's middle-class domestic market of 100m people, which continues to expand rapidly.

Industry is also discovering the possibilities of raising cheaper finance by tapping popular savings through the capital markets. New capital issues are running at a record high.

The other factor enhancing economic growth is the expansion of the service sector. This includes an increase in the number of bureaucrats, but also reflects the growth of the middle-class market and the absorption of a vast amount of "black" money into the economy.

By contrast with this picture of a more dynamic private sector, Mr Gandhi has let the government's finances slide towards bankruptcy. Measured by normal international criteria (not the ones used by the Economic Survey), the government deficit has averaged 8 to 9 per cent of GDP over the last four years — high even by Latin American standards. Interest payments on outstanding debt, subsidies and defence account for 74 per cent of revenue receipts.

The survey warns of the dangers of this for excessive monetary growth and hence inflation, and that high "fiscal deficits will spill over and contribute to high current account deficits in the balance of payments".

Tougher warnings have been issued recently by the Reserve Bank of India (central bank) and the World Bank. A committee of senior officials went further last year and spoke of the risks of "fiscal collapse" (the equivalent of bankruptcy) by the mid-1990s.

On the balance of payments side, the most striking evidence of the worsening of the trade and current accounts is that the foreign exchange reserves fell by 17.2bn rupees ($844m) in the first 10 months of the current financial year — the greatest drop for any year in this decade. The sharp depreciation of the rupee has helped push up exports by 24.4 per cent in the first nine months of the current year, but it did not prevent a 27.4 per cent climb in imports.

The $470m (£261m) paid by Union Carbide of the US at the weekend, in compensation to the victims of the Bhopal gas tragedy, will help greatly to cushion the foreign exchange reserves. Even so, they remain highly vulnerable to movements of short-term funds held at the Reserve Bank by Indians abroad.

Economic logic alone would suggest a tough budget tomorrow to curb deficits and squeeze inflation. The prime minister's advisers talk, however, of the need to "accompany growth by social justice."

One of the costs of Mr Gandhi's more liberal economic policies has been a sharp increase in disparities of wealth, and of the caste and communal violence this brings. The advisers say there will be no reversal of the liberal momentum, but the survey reflects some wobbling at the knees.

The authors rule out a return to widespread "discretionary physical controls" on imports but they hint at the possibility of restrictions on imported components for the automobile and consumer electronics industries.

They point to a doubling of authorised foreign borrowing last year but express their concern at the growing foreign debt service burden. The survey puts this at 24 per cent of current receipts; the World Bank makes it closer to 30 per cent.

One positive feature of the government's budget difficulties is that public-sector companies are being forced to cut their losses through improvements in productivity or by raising prices.

The squeeze on resources also means that the private sector is moving into areas once reserved for the public sector.

HK draft Basic Law released today

By Michael Marray in Hong Kong

HONG KONG'S draft Basic Law will be released here today, marking the start of a consultation during which the public has its last chance to influence the mini-constitution by which the colony will be ruled after sovereignty has reverted to China in 1997.

Banks throughout the territory are distribution centres for an initial print run of 250,000 copies of the document, and an advertising campaign is being launched to encourage participation in the consultation.

Mr C. Y. Leung, Secretary-General of the Consultative Committee for the Basic Law, said that submissions for inclusion in the committee's report would be accepted up to the end of June. This is a month earlier than first anticipated, so as to give the committee sufficient time to complete its report due by mid-August.

A previous consultation period yielded significant amendments, included in the draft to be released, and Mr Leung stressed that substantial changes are still possible as a result of the final consultation.

"It has been made very clear by the standing committee of the National People's Congress [in Peking] that this draft is not perfect and, where necessary, changes will be made," he said. The area likely to arouse most interest relates to the post-1997 political structure, and the method of selecting the chief executive and forming the legislature.

In the first round of consultation, almost 1m copies of a rough draft Basic Law were distributed in Hong Kong, and some 67,000 submissions were made to the consultative committee.

Drive for reform at Futures Exchange

HONG KONG Futures Exchange officials are to step up their lobbying to win support for reform at the exchange, having narrowly failed to achieve the required 75 per cent majority in favour of constitutional change last week, Michael Marray reports from Hong Kong.

Government officials and exchange representatives met at the weekend to consider their next move in the campaign to restructure the exchange, still being nursed back to health after the 1987 crash on world markets.

The Futures Exchange is pressing ahead with a new clearing system and guarantee fund, as well as plans for trading in a three-month interest rate futures contract. However, vital constitutional reform has been twice blocked by a small number of brokers who would lose their voting rights under the reform.

Officials hope the reforms can be pushed through, possibly by convening a third extraordinary general meeting after lobbying to garner the crucial extra votes.

The task of winning the necessary support for reform will fall to Mr Eoghan McMillan, the newly-appointed exchange chairman and an accountant who heads Arthur Andersen's Hong Kong and East Asian operations.

Ford, Nissan in Australia car venture

By Chris Sherwell in Sydney

THE AUSTRALIAN subsidiaries of Ford of the US and Nissan of Japan have sealed an agreement to share production of a medium-sized, four-cylinder car to supplement their range and help them withstand local and foreign competition.

Project Matilda has taken 18 months to be agreed and is a much-needed fillip for Nissan, the lowest-ranking of Australia's five car producers. Ford will provide the tooling and stamp the car's body panels, and the vehicle will be assembled on a new A$40m (£18.5m) line at Nissan's plant near Melbourne.

Ford Australia earlier removed doubts over the future of its ambitious Capri sports car project by approving production for the domestic market and final development of a US export model.

The announcement yesterday was seen as a further commitment to the government's eight-year car plan, which began in 1984 and foreshadowed a fall in the number of manufacturers from five to three, plus a drop in the number of models from 13 to six.

The new locally-produced car will be based on the Nissan Bluebird released in Japan last year, adapted for Australian conditions. Production will be at a minimum 40,000 a year and Nissan plans to export some of its share.

UK NEWS

Centre parties fail to settle differences over closer links

By Charles Hodgson

THE PROSPECTS of an end to the stalemate between the two centre parties receded at the weekend as leaders of both the Social and Liberal Democrats and the Social Democrat Party firmly rejected each other's options for closer links after the Richmond by-election.

Mr Paddy Ashdown, leader of the Democrats, ruled out the call by Dr David Owen, SDP leader, for a broad electoral pact between the two parties, while Dr Owen spurned Mr Ashdown's suggestion of a merger as an "absurd idea."

The Democrat response to the SDP's strong showing at Richmond, where the Conservative majority was slashed by nearly 17,000 votes in a late SDP surge, is expected to be discussed at a meeting tonight of the Democrats' federal executive.

Senior party figures were already claiming last night that Dr Owen's refusal to consider a merger had portrayed the SDP leader as a "spoiler" in the public mind.

As the row between the centre parties continued, a public opinion poll showed Labour overtaking the Conservatives for the first time since October 1986, pulling ahead by one percentage point. A second poll put the two main parties neck and neck.

The Harris poll, published in yesterday's Observer newspaper, which put Labour at 42 per cent, against 41 per cent for the Tories, also showed that a majority of Dr Owen's supporters favoured a merger between the SDP and the Democrats.

While SDP leaders dismissed the poll finding, Mr Ashdown drew on it to support his contention that the two parties should "put personal vanities aside" and seek a new relationship.

"I am prepared to take risks with my party in order to move the situation forward," Mr Ashdown said in a BBC television interview. He added that the public would not forgive the two parties for failing to seize the opportunity offered by the Richmond poll, where a combined centre vote would have defeated the Tory candidate.

Democrat party leaders will have an opportunity to sound out grassroots opinion on future links with the SDP at a conference in Bournemouth next weekend, during which a motion on relations with Dr Owen's party may be debated.

Ashdown: ruling out an electoral pact

Mr Ashdown's supporters insist that at present any formal agreement, whereby one party would stand down in seats where the other was stronger, is "wholly unrealistic" and undemocratic. But they concede that it would be electoral suicide to go into the next general election at loggerheads.

Much will depend on the two parties' performances in the forthcoming local and European elections this summer, and in the key Vale of Glamorgan by-election, caused by the recent death of the Conservative MP Sir Raymond Gower.

Some Democrats may suggest that the two local parties agree on a joint candidate, although others are sure to argue against setting such a precedent.

Many party activists will urge Mr Ashdown to stick to his stategy of "no deals" and see how the SDP performs in the local elections.

But they concede that the continued squabbling could leave the way open for Labour to enhance its present opinion poll showing as by far the strongest opposition party, particularly if Mr Neil Kinnock, the party leader, pushes through his moderate-leaning policy reforms at this year's Labour conference.

GEC, Fokker proposal for Shorts

By Lynton McLain

GEC, the UK electronics and defence company, and Fokker, the aircraft company partly owned by the Dutch government, have made a joint proposal to buy Short Brothers, the Belfast aerospace company the Government wants to privatise.

GEC said yesterday it had proposed with Fokker a joint GEC/Fokker company to acquire Short Brothers, on the assumption that by the time Shorts was sold it would have "certain genuine net assets" free of debt.

GEC said that both it and Fokker were interested in different parts of Shorts. GEC, with its defence interests, was likely to be interested in the guided missile operations, while Fokker already has a link with Short's aircraft operations. Shorts makes the wings for the Fokker F100 twin-jet 100 seat airliner as a risk sharing partner. Fokker wants to protect its source of wings.

The announcement of the proposed joint company to take over Shorts, Britain's oldest aircraft company and the biggest employer in Northern Ireland, came on the eve of a statement today by Mr Peter Viggers, Northern Ireland industry minister on the refunding of Shorts. Mr Viggers is expected to announce the first stage of a programme to re-capitalise the Belfast group.

This is to involve the underwriting of the company's debts or the transfer of debts to the Government in the run up to privatisation.

The Northern Ireland Office said yesterday the Government had already committed itself to the need for re-capitalising Short Brothers before privatisation. The privatisation of Short Brothers could cost the Government between £700m and £850m, the House of Commons Trade and Industry Select Committee said last week.

In the year to the end of March 1988, the company had total debt of £445.3m, made up of a deficit on shareholders funds of £175.6m, long term debt of £76.6m and short term debt of £193.1m.

The company also wants Government launch aid to fund its proposed quarter share of the £500m-plus Shorts FJX twin turbofan powered airliner project, which is still on the drawing board. This could amount to about £150m. The balance for the project would come from partner companies.

In addition, the company needs substantial investment to re-equip its factories. This would amount to tens of millions of pounds, giving a total capital and debt write-off requirement for Short Brothers of about £875m.

Fokker also produces the 50 seat F50 twin turboprop airliner, a direct competitor to the proposed Shorts 48 seat FJX project.

US bank to hive off securities business

By Katharine Campbell

FIRST Interstate Capital Markets, the UK merchant banking arm of the American West Coast bank, is to hive off its securities business into a newly created affiliate, so that, for regulatory purposes, this comes under the sway of the securities rather than the banking watchdog.

This marks the first occasion in the life of the 1986 Financial Services Act (FSA) that an institution authorised under the UK Banking Act has taken its securities business in search of a different style of regulation.

The move renews concern, voiced when the FSA was implemented, that insufficient harmony between regulators would allow firms to "shop around" for the most favourable treatment.

First Interstate Securities, the new affiliate, will accommodate the bank's Eurobond trading business from March 1, and will then report to the Securities Association (TSA), the City of London's largest self-regulatory organisation charged with overseeing investment business.

Under the FSA, investment banks effectively adopt either the Bank of England or the Securities Association as their "lead regulator." The two watchdogs have very different styles, nowhere more obvious than in the way they approach the subject of how much capital institutions must set aside to cushion their risk.

Mr David Lord, managing director of First Interstate Capital Markets, said that capital requirements for securities positions, as laid down by the Bank of England, were sufficiently onerous that it had become apparent the firm would look for an alternative arrangement to maintain its Eurobond business.

In the past year, the firm has had an interim arrangement whereby the US parent effectively guaranteed large underwriting positions. For this to continue, the Bank of England would have needed a formal parent company guarantee, which could have run into legal problems in the US.

TSA capital adequacy requirements are formulated primarily for securities houses, with a balance sheet of liquid shorter-term assets rather than for banks, whose assets are typically less tradable longer term loans.

A number of other institutions are understood to be re-examining the feasibility of running a securities business off a bank's balance sheet. The more extensive are the securities activities, clearly the less favourable it is. Mr Lord estimated that the securities side of First Interstate contributed about 20 per cent of the UK operation's profits.

Shell Chemicals plans ethylene pipeline across UK mainland

By Peter Marsh

SHELL CHEMICALS, the UK chemicals arm of the Royal Dutch/Shell oil group, is expected to announce today plans for a pipeline to carry raw materials to two big Shell chemicals plants in north-west England from the north-east coast.

The pipeline, likely to cost about £75m, would be the biggest chemicals infrastructure project in Britain for some years and indicates the current buoyant state of the chemicals business in Western Europe.

The 150-mile transmission system would channel ethylene, a vital feedstock in the chemicals industry, to two chemicals sites run by Shell at Carrington, near Manchester, and Stanlow, near Chester. Both complexes make plastics such as polyethylene and other materials used in motor oils and detergents.

The pipeline would ease supply bottlenecks which in recent years have meant the Carrington and Stanlow plants have worked below capacity.

The bottlenecks have resulted from problems Shell has experienced in recent years in gaining sufficient use of an existing cross-England pipeline for carrying ethylene. This system is run by Imperial Chemical Industries, Britain's biggest chemicals group.

Spare transmission capacity on the existing pipeline – which is mainly used by ICI for transferring ethylene between its production sites on Teesside in the north east and Merseyside in north-west England – has been limited due to the heavy demands being put on it by ICI.

Shell has been considering for the past year going ahead with the new transmission network as a way of ensuring it can increase production at Carrington and Stanlow.

Shell is due to make a final decision on the pipeline today but is thought almost certain to approve the scheme. Before the project can proceed, the company will have to gain planning consent for the pipeline from a variety of government agencies.

Assuming this is obtained, the pipe could be in place within the next two years.

It could lead on to a further decision by Shell, which the company is now considering, to build a new polyethylene plant at Carrington.

That project, which would be made in the light of the current high demand for the plastic in Britain, could entail a further investment at Carrington of up to £50m over the next few years.

The pipeline likely to be announced today would connect Shell's two plants in north west England with an existing ethylene transmission network on the west coast of Britain.

Under an arrangement with Exxon, the US oil giant which operates the Mossmorran plant, Shell takes about 300,000 tonnes of ethylene a year from this facility before feeding it into the ICI pipeline, which starts at Teesside.

As a result of the high overall UK demand for chemicals in the past two years, ICI's own use of this pipeline has been growing.

Water flotation behind schedule

By Richard Evans

THE GOVERNMENT is four to six weeks behind in its tight schedule for preparing for the privatising of the water industry, according to confidential documents leaked to the opposition Labour Party.

The disclosure, taken with the series of recent setbacks to water privatisation plans involving much higher charges and difficulties in meeting stringent European Commission regulations, will cause ministers further political embarrassment.

The Government's original intention was to publish details of how charges would be fixed after privatisation by the end of January this year. These principles will not now be known until well into March. The 10 regional authorities in England and Wales are due for flotation in November.

Charges will be based on a formula similar to that used for British Gas and British Telecom, namely the retail price index plus or minus a factor called K. This K factor will take account of a company's capital investment plans, its proposed profits and dividends, and a negative element for improved efficiency.

A confidential letter dated February 6 sent by Mr Michael Howard, Environment Minister with responsibility for the industry, to Mr Jack Jeffery, chairman of the Water Companies' Association, which represents 28 of the 29 statutory water companies, confirms the decision to delay publishing the K-setting principles.

The letter, leaked to Mr Jack Cunningham, Labour spokesman on the environment, says that representatives of the WCA and of the water authorities had been told "it would not be possible to make a public announcement . . . by the end of January as we had previously hoped. We have not yet received adequate numbers on the authorities' and the companies' operations which would enable us to develop robust principles."

There are mixed views about the significance of the delay. Some industry leaders argue that the schedule is so tight and the negotiations on fixing K for the 10 authorities and 29 companies over a 10 year period so complex that it will be impossible to make up the lost time.

Others believe the lost ground can be made up before K is finally fixed in the summer. The present plan is to have all the K setting figures in from the authorities and companies by the end of March. The Environment Department will then have six weeks in which to consider them, followed by six weeks of consultation until the end of June.

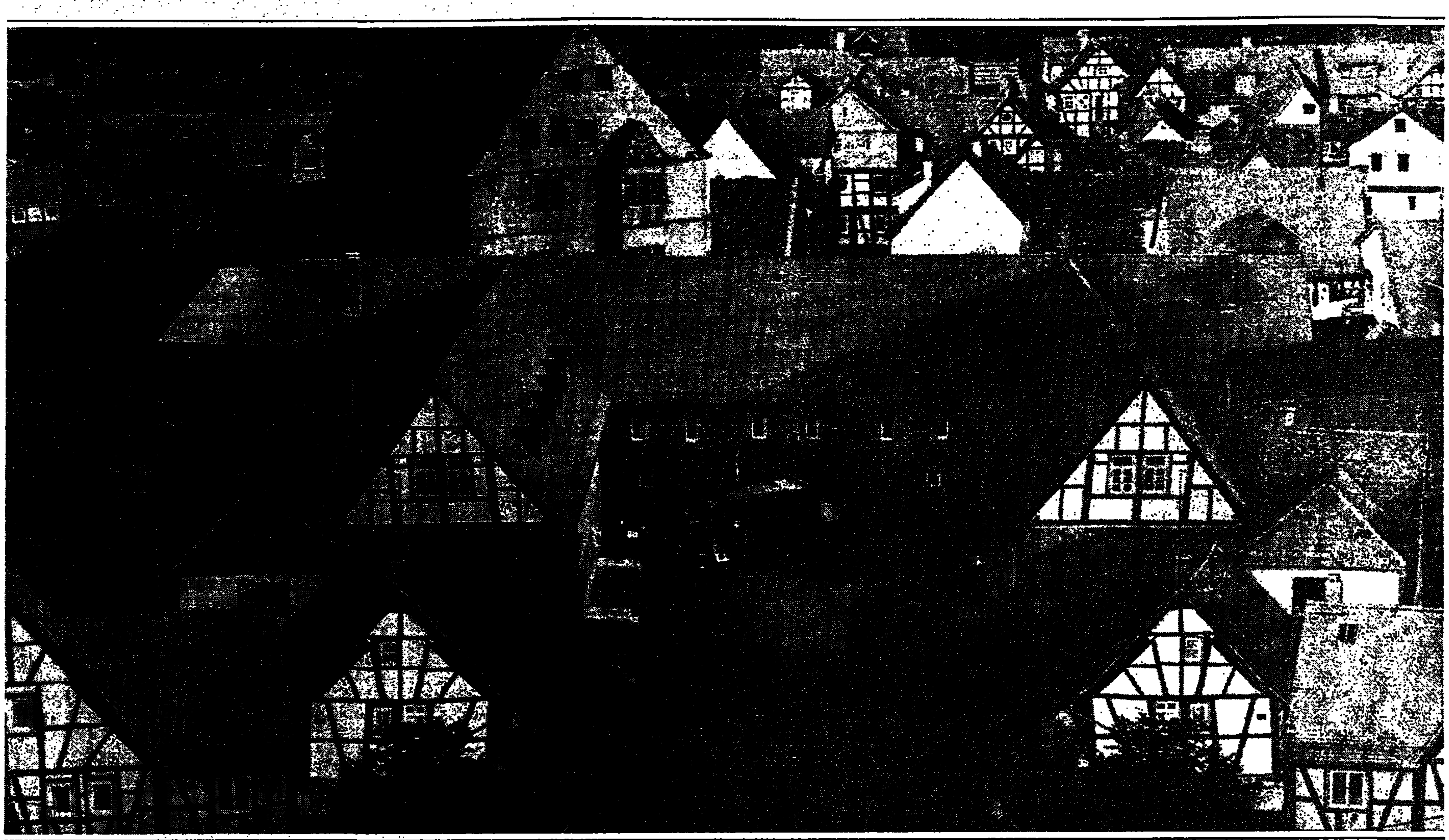
The immediate difficulty is that a circular argument is going on, with the Department demanding all the details from the industry immediately, and the industry responding that it cannot give accurate figures until it knows what the K setting principles are.

Mr Howard, in his letter, stresses his opposition to the price increases of 30 to 50 per cent proposed by some private water companies from April 1. However, it remains to be seen how many companies will back down from such rises under unprecedented Government pressure. The indications are that some will modify their plans, but that most will go ahead with increases to prepare themselves for the new regulatory regime after privatisation.

Dr Cunningham plans today to urge Mr Nicholas Ridley, Environment Secretary, to abandon the Water Bill, now in its House of Commons committee stage. In a letter to Mr Ridley he writes: "It is now absolutely clear that the proposals in the Bill are too weak, confused and incoherent to ever create an effective framework within which to safeguard consumers and the environment."

Ministers remain confident the privatisation measure will reach the Statute Book on schedule in July, but they are increasingly worried by its overwhelming unpopularity in opinion polls, including among Tory voters.

Sending International Parcels and Documents UPS Is As Good As Taking Them There Yourself



One By One

Anyone can deliver parcels. But at UPS we bring a unique dedication to this task.
Because while we are usually the most economical, one thing
that really matters to us is our reputation for being the most trusted.
A trust shared by every one of the Fortune U.S. 500.
We have earned this reputation by performing our simple task with a passion.
By recognising that in our business success is measured one delivery at a time.
The UPS network now extends throughout Europe,
the Pacific, Australia and North America.
However, even including 600 million addresses in China,
we cannot claim to be the best known international delivery service. Yet.
But whatever happens, the strength of UPS will always be our service. Not our size.

UPS®

United Parcel Service

As sure as taking it there yourself.

For further information call Austria: Star Air Parcel Service • Tel. 0222/7770 3556 or 3557 Belgium/Luxembourg: UPS • Tel. 02/7517777 Denmark: UPS • Tel. 01/517511 Finland: UPS • Tel. 90/821099 France/Monaco: UPS • Tel. 1/4975 4400 Greece: ACS International LTD • Tel. 01/5231449 Ireland: UPS • Tel. 01/427766 Italy: UPS/Alimondo • Tel. 02/50791.1 Netherlands: UPS • Tel. 020/604 5222 Norway: Aircontact Cargo • Tel. 02/122020 Portugal: Sadocarga • Tel. 01/607127 or 607595 Spain/Andorra: Servitrans S. Coop LTDA • Tel. 91/7787000 Sweden: Scanflight AB • Tel. 08/7978000 Switzerland/Liechtenstein: UPS • Tel. 061/572755 Turkey: UNSPED PAKET SERVISI • Tel. 01/5582345 or 5582357 United Kingdom: UPS • Tel. 01-890 3644 West Germany: UPS Deutschland, Inc. • Tel. 49 06196/472141

Energy reserves grouped in fewer hands

By Steven Butler

A FRENETIC series of North Sea asset deals in the past year has resulted in a high concentration of ownership of Britain's oil and gas reserves and exploration acreage, says a report by County NatWest Woodmac, the securities company. Further, foreign companies have come to control most UK oil reserves.

The report says five companies own 57.7 per cent of Britain's commercial oil and gas reserves and 58.7 per cent of current output. Concentration is less pronounced for exploration acreage: the five control 39.8 per cent.

British ownership of UK oil and gas reserves has fallen to 47 per cent, if Royal Dutch/Shell is classified as a British company.

COMMERCIAL RESERVES OWNERSHIP*

Number of companies	% of total UK commercial reserves: Oil	Gas	Total
BP	21.1	18.5	20.1
Top 5	54.2	57.7	52.7
Top 10	68.9	76.8	69.8
Top 15	78.0	87.9	78.3
Top 20	84.8	93.7	85.4

* Ownership of estimated remaining recoverable reserves from fields either in production, under development or expected to be developed in next two or three years

Source: County NatWest Woodmac

The five leading companies are British Petroleum, Shell, Exxon, British Gas and Enterprise Oil. BP secured the most dominant position by acquiring Britoil last year.

The increased concentration followed from the high level of corporate activity last year in which 2.3bn barrels of oil equivalent changed hands, amounting to 15 per cent of Britain's remaining commercial reserves.

BP now owns 20 per cent of those reserves, compared with about 12 per cent each owned by Shell and Exxon, the world's two largest oil companies. However, the fact that Shell and Exxon manage their North Sea assets together in a joint venture has the effect of increasing the degree of concentration even further.

Following those leaders are British Gas, with 7 per cent of reserves (15.6 per cent of all gas reserves), and Enterprise Oil, with more than 4 per cent (5.6 per cent of all liquid reserves).

BP owns 16 per cent of all offshore acreage under licence on a net basis. However, it is a participant in 28 per cent of all blocks under licence, giving it commanding access to a wealth of geological information on the North Sea.

The increasing concentration of control in Britain's oil and gas industry is part and parcel of the demise of the UK independent sector.

Three large independents, Britoil, Tricentrol and Acre Oil, were taken over by bigger companies last year. Some non-oil companies, including Taylor Woodrow, RTZ, Tenneco, Pearson and Associated News left the industry, selling off oil and gas assets.

The result is that BP, Shell and British Gas account for 80 per cent of offshore commercial reserves owned by UK companies, and 85 per cent of UK companies' output.

The study raises the possibility that the reduced number of players in the field would lead to an atrophy of new ideas and approaches to the industry.

That danger was recently emphasised in a report by a Parliamentary Energy Committee which praised independents for "exceptional enterprise."

Kleinwort sees strong rise in N Sea oil production

By Steven Butler

KLEINWORT BENSON, the London securities group, has issued one of the most bullish forecasts yet for oil production in the North Sea, saying oil could play a critical role in the UK economy if, as it forecasts, oil prices rise significantly early in the next decade.

In its latest issue of Drill Bits Weekly, a market commentary, Kleinwort Benson forecasts that UK oil production from known discoveries will rise from 1988 average levels of 2.28m barrels a day to a peak of 2.46m b/d in 1994.

The production forecast comes close to the upper range of a recent government projection for the next five years, which lifted estimated production by about 10 per cent over earlier government forecasts. The Government forecast a range of production in 1993 between 1.6m to 2.4m b/d, compared to a firm prediction by Kleinwort Benson of 2.37m b/d.

Kleinwort Benson also forecasts that production will remain above 2.3m b/d until at least 1996, with the later years subject to upward revision should the recent high level of success in North Sea exploration continue. That means a high likelihood of production close to 2.4m b/d for a number of years.

The increased figures would have important implications for the UK economy should Kleinwort Benson be correct in its predictions that oil prices are poised to rise significantly in 1992 or 1993, as the world becomes increasingly dependent on the Middle East for crude oil supplies.

The result, in 1994, would be to give the UK net exports of oil of 800,000 b/d, yielding a contribution to UK exports of £7bn to £8bn. That assumes an oil price of $25 (£15) a barrel.

Although the UK would also suffer at that time from inflationary pressures brought on by rising energy prices, it would be relatively cushioned compared to the big oil-importing countries, such as Japan, West Germany and the US.

Kleinwort Benson's oil price forecasts are by no means a consensus in the industry, where many expect stable oil prices until nearly the end of the century.

GrandMet reorganises after £3bn US deal

By Philip Coggan

GRAND METROPOLITAN, the UK food and drinks group, has reorganised its foods operations after the $5.7bn (£3.2bn) purchase of Pillsbury, the US food and Burger King restaurant company.

A new unit will be established — Grand Metropolitan Foods, Europe — with annual sales of $2.5bn. It will have two divisions. The first — Pillsbury Foods Group (Europe) — will consist of the European foods operations of Pillsbury, with business in the UK, France, Spain, the Netherlands and West Germany and the non-dairy operations of GrandMet subsidiary Express Foods Group.

The other operating division in this unit will be Express Foods Group (International), which largely consists of GrandMet's dairy interests. Mr Michael Hodgkinson, managing director of Express Foods Group (International), will become chief executive officer of Grand Metropolitan Foods, Europe.

Pillsbury's non-US and non-European operations, with annual sales of about $500m, will be grouped in a second unit, Pillsbury International.

Pace of shoe job losses quickens as imports increase

By Alice Rawsthorn

SEVERAL thousand jobs were lost in the footwear industry last year because of the rapid rise in imports fuelled by the strength of sterling.

The footwear industry has faced intense competition from imports for about a year. Pressure on profitability has intensified in recent months, however, and the rate of job losses and company closures has accelerated.

The volume of imports coming into the UK rose by 6 per cent to 188.6m pairs of shoes last year, according to the latest statistics from the British Footwear Manufacturers Federation.

The level of import penetration increased from 63 to 65 per cent during the year. That compares with import penetration of 47 per cent in 1980.

The import pressure has been most intense in the women's and children's shoe sectors, concentrated in Leicestershire and Lancashire.

In recent years, several south-east Asian countries — such as Taiwan and South Korea — have invested heavily in manufacturing capacity for women's and children's shoes.

By contrast, the men's shoe manufacturers, mainly based in Northamptonshire, benefited from buoyant demand. The traditional British brogue is now fashionable all over the world and the men's shoe makers have experienced healthy growth in both home and overseas markets.

The women's and children's shoe companies bore the brunt of the 2.5 per cent fall in footwear output — to 122.6m pairs worth £909m — last year. Similarly the job losses and company closures have been concentrated among these companies.

It is still not clear exactly how many jobs were lost in the industry during the year. The Government's figures indicate that employment fell by 7 per cent — or by about 3,680 to 48,900 — in the 12 months to October. The BFMF suggests that the rate of decline is likely to have accelerated since October.

The rate of company closures has also accelerated. J. Percival, a Leicester company, stopped production last week after 96 years of shoe making. Mr Roger Percival, managing director, blamed import competition as the cause of its difficulties.

Nature fund urges use of overseas cash

By Stephen Fidler, Euromarkets Correspondent

THE WORLD Wide Fund for Nature has embarked on a campaign to persuade British companies and individuals to apply funds frozen overseas to development and conservation programmes in the countries concerned.

Many companies and individuals have money locked in bank accounts in developing countries, mainly in Africa and Latin America, which they cannot bring home because the individual governments lack the foreign-exchange resources to allow the transfer.

Such funds can arise from profit remittances or proceeds from the sale of businesses. Because of local currency depreciation, the value of the blocked funds, some of which have been held for years, often declines significantly, leading many companies to write them off entirely.

In pilot schemes in Tanzania, Zambia and Zimbabwe, the charity's UK arm has already raised the equivalent of £250,000 to fund projects.

Consolidated Gold Fields has, for example, donated Zimbabwe dollars for a project aimed at finding ways to counter the environmental problems caused by cattle ranching.

Rio Tinto Zimbabwe has also made donations.

Chloride's Zambian subsidiary has contributed to a wetlands project in the Kafue flats and Bangweulu Basin. T & N have paid for a helicopter, as part of a project to support the endangered black rhino population in the lower Zambezi valley.

These three countries continue to be targeted by the fund, which is also initially aiming to raise money in Zaire and Brazil. But officials believe the concept could be applied to many of its 240 projects in 40 developing countries. "We think the idea has enormous potential," said Ms Sarah Brunwin of the charity's corporate fund-raising department.

The release of blocked funds has possible tax consequences, either adverse or favourable, to the company concerned, so the accounting firm of Arthur Andersen is offering advice to companies interested in pursuing the idea.

The charity's US group has led the way in sponsoring so-called debt-for-nature swaps, in which sovereign debt of a developing country is purchased at large discounts and swapped into local currency to support conservation projects.

Barclays plans to advise pupils on passing exams

By David Thomas, Education Correspondent

BARCLAYS BANK is planning to send advice on how to do well at exams to more than 500,000 school pupils in what is claimed as the biggest sponsorship arrangement yet between a commercial company and an examining board.

In return, the bank will be able to market its service to pupils taking the 16-plus GCSE exam with the Southern Examining Group and the 18-plus A and AS levels with the Associated Examining Board — two of the biggest school examining bodies in the country.

Pupils sitting exams with the two examining bodies will be able to send off for a free exam guide entitled How To Do Better In Exams.

Those who pass their exams will be able to apply for another document outlining the syllabus covered by each exam: this is designed to give employers and colleges easily understood information on the exams the pupils have taken.

The form to be completed by pupils in order to receive the guides will also contain a box asking if they want to receive details of banking services from Barclays.

Barclays is paying for the printing and despatch of the guides. The bank said the initiative flowed from its desire to develop links with education and represented a significant marketing opportunity.

Mr George Turnbull, chief executive of the Associated Examining Board, said the arrangement was the most extensive yet between the examining world and business. Barclays had agreed to fund the publications for a three-year period initially, but he hoped that would be extended over a further period.

Staff canteens attract record level of custom

By David Churchill, Leisure Industries Correspondent

STAFF CANTEENS are enjoying a record level of popularity with British workers, according to a survey of companies covering over 500,000 employees.

The survey, by the Industrial Society, shows that 68 per cent of workers last year bought a cooked meal, snack or light refreshment each day from a company canteen.

"The survey registers the highest number of total sales ever recorded," the report points out.

The 68 per cent level was 10 per cent higher than in 1985, and 20 per cent up on 1978.

However, the survey shows that about a third of a company's workforce "want to buy a cooked meal and, at under £1.50, three courses and tea or coffee is value for money."

However, prices have risen by an average of 23 per cent since 1985, with prices in London and southern England higher than in the North and Scotland.

Sales of drinks such as tea or coffee have increased to about 2.5 cups daily, although employees in London and the North have at least three cups a day.

The traditional tea trolley is disappearing, the survey points out. Sales of drinks from machines are 2.5 times those from manual services. Employees drink 2.5 times as much vended coffee as tea.

The executives-only dining room is also on the way out. About three quarters of companies had the same dining facilities for all employees.

26th survey of catering prices, costs, subsidies, and other information; Industrial Society, Peter Runge House, 3, Carlton Terrace, London, SW1Y 5DG.

UK NEWS

Warburg takes first place in gilt-edged rankings

By Simon Holberton, Economics Staff

WARBURG SECURITIES has pushed out Phillips & Drew and moved up to first place in the ranking of gilt-edged market markers in 1989, according to a survey by Greenwich Associates, a US ratings agency.

The survey polled 145 UK institutions and users of the gilts market. It is conducted yearly and is regarded as one of the most reliable assessments of the performance of individual securities houses.

It is used internally by market makers to identify weaknesses and make improvements, either by changing personnel or putting more resources into weak areas.

Warburg consistently scored first in overall ratings for how many institutions cited it in the top 10, the overall rating of its sales force, market-making capability and economic research. In most of those categories it occupied second place to Phillips & Drew in 1988.

The ratings provide a reasonable guide to the market share of the main dealers in the gilts market but tell little about profitability. The second-placed house, Phillips & Drew, disclosed big losses in its gilts operation.

The overall rating is based on the frequency of citation in the top 10. Sub-dividing that rating, however, shows Barclays de Zoete Wedd in the lead, with 17 per cent of the survey group nominating it first. Warburgs came equal second with Phillips & Drew, with a score of 16 per cent each.

The sales team at Daiwa Securities, one of two Japanese securities houses to join the market, was rated best, with 36 per cent of the survey group rating it outstanding. Goldman Sachs was second, followed by Merrill Lynch and Warburgs.

Daiwa was also rated best at dealing in large blocks of short-dated gilts. It was followed by CL-Alexanders Laing & Cruickshank, Warburgs and Goldman Sachs.

TOP GILTS TRADERS IN 1989*

Warburg	1 (2)
Phillips & Drew	2 (1)
BZW	3 (4=)
Greenwell Montagu	4 (5)
James Capel	5 (4=)
Goldman Sachs	6 (9=)
Hoare Govett†	7 (7)
Chase	8 (8)
County NatWest	9 (12)
CSFB	10 (10)
Kleinwort Benson	11 (9=)

1988 rankings in brackets. *Most cited in the top 10; †Since withdrawn from the market.

Source: Greenwich Associates

Warburgs was best at making competitive markets promptly and best at dealing in large lines of medium-dated gilts. Goldman Sachs was best at making markets in large lines of long-dated gilts, with Greenwell Montagu and Warburgs following.

In terms of research capability, Warburgs comes first in its interest-rate forecasts, interpretations of government policy, advice on portfolio strategy and information on types of securities. Goldman Sachs is first in business and economic analyses, followed by Warburgs and Phillips & Drew in equal second place.

● The International Stock exchange today begins the pilot service of SEQUAL, the on-line trade confirmation service for international security trades, Heather Farmbrough writes.

SEQUAL provides on-line matching and confirmation of trade details for parties buying and selling international securities. The system will compare two sets of information and either identify a matched trade or record the trade as unmatched.

The pilot is beginning with seven houses. So far, 28 houses have contracted to use the service.

Ethical investments can match market

By Heather Farmbrough

THE RETURN on ethical investments can be as good as the rest of the market, according to a study of eight hypothetical ethical index portfolios over a five-year period, compiled by Barra International, the independent international pension and investment consulting firm.

The cumulative return on ethical portfolios ranged between 147 per cent and 165.5 per cent, compared with an index return of 161 per cent. The yield on ethical funds remained over 4 per cent, compared with an index yield of 4.36 per cent.

The worst performer was the tobacco-free portfolio (total return of 147.4 per cent), while the best was one that excluded all South African companies with over 1,000 employees (165.5 per cent).

However, a number of ethical funds, notably Merlin Ecology, appear to have outperformed the market by selecting on a positive basis instead. The idea is that companies that care about their employees and matters such as pollution and the environment have more forward-looking management, so will perform better.

LONDON BUSINESS SCHOOL ECONOMIC OUTLOOK

Growth 'will slow down for soft landing'

By Peter Norman, Economics Correspondent

THE London Business School is confident that the British economy can achieve the desired "soft landing" from last year's excessively strong growth.

In its latest thrice-yearly forecast, published today, the LBS envisages a slowdown in economic growth but no recession in the period to 1992.

The LBS's Economic Outlook predicts that Britain's huge current-account balance of payments deficit will decline significantly over the next four years. Inflation will fall moderately to under 5 per cent. However, the sharp fall in jobless numbers from more than 3m in early 1987 will grind to a halt: unemployment is projected to hover around 2m in the next four years.

The LBS has only slightly revised its view of future economic trends since its last main forecast at the end of October. Real economic growth of 3 per cent this year and 2.4 per cent in 1990 will be somewhat slower than previously envisaged, to reflect the increase in bank base rates to 13 per cent in November last year.

The LBS forecasters, who were already more optimistic than most of their peers about the likely development of the current account, now expect a somewhat faster decline in the deficit. The current-account deficit is expected to drop this year to £12bn from about £14bn in 1988 and continue falling to £5.8bn in 1992. In October, the LBS forecast a decline in the deficit to £6.8bn in 1992.

ECONOMIC FORECASTS

	1988	1989	1990	1991	1992
GDP	4.7	3.0	2.4	2.6	2.4
Inflation	5.2	4.8	4.7	4.8	5.3
Consumers' Expenditure†	6.2	2.4	2.2	2.7	2.2
Total Fixed Investment†	7.8	3.5	2.8	3.0	2.9
Gen Govt Consumption	0.4	0.6	0.8	0.9	0.9
Stockbuilding†‡	1.2	1.3	0.9	1.0	1.1
Exports†	0.2	4.4	4.3	1.9	2.5
Imports†	12.2	3.3	2.4	1.3	1.4
Sterling Index*	98.0	97.0	96.0	96.0	96.0
PSDR (£bn,finan years)	12.9	15.7	15.0	16.6	19.7
Current Balance (£bn)	-14.0	-12.0	-11.6	-9.2	-5.8
Adult Unemployment (UK, m)	2.3	2.0	2.0	2.1	2.0

Percentage change unless otherwise shown. † Percentage change in volume. ‡£bn, 1985. *1985=100.

Source: Economic Outlook 1988-1992, February 1989.

The forecast pinpoints a sharp decline in the growth of import volumes this year as the main factor behind the expected improvement in the deficit. Throughout the forecast period, the LBS expects the volume of British exports of goods and services to grow more quickly than imports.

British manufactured exports are expected to rise by 7 per cent this year after a 5 per cent rise in 1988 while the growth of production for domestic consumption is forecast to slow from more than 7 per cent last year to less than 5 per cent in 1989.

Overall, the growth of manufacturing output is expected to slow to 5.5 per cent this year and 3.3 per cent in 1990 from 6.7 per cent last year. As output slows, manufacturing productivity growth should decline to between 4 and 5 per cent annually from 7 per cent.

The decline in consumers' expenditure, highlighted in the table, is expected to depress output in the construction, distribution and services sectors.

The personal savings ratio, which fell to a record low of 1.3 per cent in the third quarter of last year, should recover to more than 4 per cent in 1991-92, the LBS says.

The LBS believes that bank base rates have peaked at their present 13 per cent but sees little chance of a rapid reduction because of the need to keep the pound stable to control inflation. It says a reduction in base rates to 12 per cent in the second half of this year and to 10 per cent by the end of 1990, as world interest rates are reduced, would be consistent with exchange-rate stability.

The report says that the present tight monetary policy needs to be reinforced by fiscal caution. The LBS expects the public sector to remain in chronic surplus and projects a public-sector debt repayment of nearly £20bn in 1992-93.

The forecast assumes that the Government will only be able to remit a small part of its surplus to taxpayers over the forecast period. For illustrative purposes only, it has assumed a series of 1-percentage-point reductions in the basic rate of income tax from this year's Budget onwards to reach Mr Lawson's target of a 20 per cent basic rate in 1993.

Economic Outlook, Vol 13, No 5, Gower Publishing, Gower House, Croft Road, Aldershot, Hampshire GU11 3HR. Annual subscription £135.

Call for tax reform to increase savings

By Ralph Atkins, Economics Staff

BRITAIN HAS a rare opportunity to reform the tax treatment of savings by using the public-sector surplus for tax incentives to boost private savings, an article in the Economic Outlook says.

Tax treatment of savings is a "shambles," Mr John Kay, the report's author, writes. He sets out proposals for a scheme that would encourage savings without allowing tax incentives to leak into consumer spending.

The article highlights many anomalies and inconsistencies in the taxation of savings. It says: "Even the most level of playing fields will have the odd bump, and that may not distort the game too much. But it is hard to talk of a level playing field when no two parts of it are at the same height."

Mr Kay adds: "The Saturday editions of the quality newspapers are full of invitations to subscribe to schemes which are distinguished more by their tax advantages than the underlying profitability of the investments involved."

If taxation regimes are to be standardised, he says, there are two main alternatives. One would be to develop Personal Equity Plans (PEPs), which offer no tax relief on investment but exempt the yield.

However, Mr Kay rejects that idea. The difficulty is that the revenue cost of PEPs is low in the first year but the schemes boost consumers' wealth, encouraging spending in anticipation of future tax relief. If the Government were to spend £5bn on expanding the scheme, a large chunk might feed through into spending, he says.

A second, more attractive, regime for the Government to introduce would be based on the tax structure of personal pensions or US Individual Retirement Accounts. Here investments attract tax relief but proceeds are subject to a full tax charge.

Its advantage would be that tax revenues forgone by the Government would flow into private sector savings. If taxpayers tried to spend the tax relief, they would immediately trigger a clawback.

Mr Kay suggests that individuals should be allowed to invest in such schemes up to a certain limit with withdrawals subject to both basic and higher rate tax. He estimates that if £5bn of tax revenue was forgone, personal savings might rise by about £10bn.

Fall in people aged 45-64 is 'main cause of decline'

By Simon Holberton

THE DECLINE in the number of people aged 45-64 has been a principal cause of the fall in recorded savings in Britain during the 1980s, according to London Business School economists.

However, they say the level of savings will recover in the 1990s as the number of people in this age group rises.

The authors of the study in the latest Economic Outlook, Mr David Currie, Mr Sean Holly and Mr Andrew Scott, also forecast an improvement in the current account of the balance of payments.

Given that outlook for savings, the LBS warns Mr Nigel Lawson, Chancellor of the Exchequer, that he would be ill advised to heed calls for Budget measures to raise the level of savings.

The authors say the four main reasons cited for a decline in the rate of savings – mismeasurement of savings, financial deregulation, the house price boom and expectations of higher growth – are insufficient to explain the fall.

All have played a part, but the recent tightening in monetary policy should be enough to reverse the trend they started. High interest rates will depress consumption and house price rises and the rate of economic growth, which should help raise savings.

More important, however, is the growth in the numbers of people reaching the age of 45. The group aged between 45 and 64 tends to save more than younger and older groups, and it was this group that fell, as a percentage of the population, during the 1980s.

"The decline reflects primarily the effects of the Second World War on the birth rate . . . There is an appreciable revival of numbers in this age group as the post-war baby bulge enters middle age."

Growth in that age group is beginning this year and will rise to more than 1m people by 1996. By that time, the savings ratio will be 2 per cent higher than it would have been without this growth in the age group.

Clothing retailers hit as consumer spending falls

By Christopher Parkes, Consumer Industries Editor

THE CLOTHING MARKET has been hit especially hard by reductions in consumer spending. The annual rate of sales growth last year was only 6.6 per cent, the lowest since 1982, according to a report from Verdict, the retail research group.

A number of other factors were already making life difficult for clothing retailers and depressed spending caused by high interest rates has made matters worse, the report says.

The business has been suffering from low price inflation at a time of rising operating costs, and retailers have relied too heavily on new store openings to provide growth. Demand for new outlets in turn has raised costs, pushing up rents and property prices.

Verdict says that clothing occupies 20 per cent of retail sales space, but accounts for only 15 per cent of retail turnover. It concludes that "there is simply too much space chasing too few sales."

The gloomy outlook is intensified by the lack of strong fashion trends, which has tended to make many of the multiple chains and their offerings look indistinguishable from one another.

Burton Group has narrowed the market share gap with *Marks and Spencer, but* with 9 per cent of sales, against 15 per cent, it still has ground to make up.

Verdict on Clothing Retailers. Verdict Research, 112 High Holborn, London WC1V 6JS. £450.

BT terms 'may face suppliers with bankruptcy'

By Hugo Dixon

THE UK electronics industry fears that some of its members might be bankrupted if they are forced to accept clauses British Telecom is seeking to introduce into its contracts with suppliers.

The clauses would make suppliers responsible for losses BT faced as a consequence of faulty equipment. The industry provides BT with about £2bn of equipment each year.

Its concerns surfaced this month at the annual dinner of the Electronic Component Industry Federation, many of whose members are subcontractors to BT's main suppliers.

"They [BT] try to force their standard conditions which may be ideal for telegraph poles, but they don't make commercial sense between electronics component manufacturers and their customers," Mr Don Tyzack, federation chairman told the dinner.

BT's new clauses have also been of concern to the Telecommunications Equipment Manufacturers Association (TEMA), whose members include most of BT's main contractors. However, few of them have been willing to criticise BT openly out of fear of antagonising a customer that, in many cases, accounts for most of their business.

BT itself has tried to play down suggestions of a dispute with its suppliers, denying that it had yet changed the terms of its contracts or that it was seeking to impose the changes unilaterally. "We want to arrive at a relationship by agreement, not in opposition," it said.

TEMA, however, said BT's new conditions had already started finding their way into contracts with individual companies. That was confirmed by GPT, the UK's largest telecommunications manufacturer, which said that conditions had become "more onerous" recently.

BT said it was seeking to establish the "important principle" of making its suppliers liable for consequential losses. It described that as an ordinary, prudent commercial practice.

Such conditions were not necessary at a time when BT had been a state-owned monopoly, but were now that it faced competition in the market-place, the company said. There was a need for the new conditions because BT had agreed to compensate its own customers for consequential losses from the beginning of April, it said.

The electronics industry, however, is worried that the new conditions might leave companies open to unlimited liability. The component suppliers are particularly anxious, because they do not always know how their components will be used by BT's main contractors.

"Say an exchange went out of action for a week and clients were cut off. If BT had to compensate, component suppliers would have to pay," one executive said. Companies would have the choice of going out of business or paying enormous insurance premiums, he said.

BT refused to comment on the fears, saying it was still in discussions with the industry about the contract. "It may or may not involve unlimited liability," it said.

Shell coaxes star performance from reduced cast

Peter Marsh on expansion hopes at a chemical complex where the future is now looking good

"WE HAVE a different style of working now," says Mr Bob Punchard, as he shows a visitor round the empty spaces at what was once a bustling chemicals complex at Carrington, near Manchester.

The workforce at the 500-acre complex, which mainly makes plastics and is run by the UK subsidiary of the Royal Dutch/Shell oil and chemicals group, has been slimmed by a fifth, to 500 people, since 1980.

A total of £7m has been spent on demolishing old and unwanted plant, leaving the gaps referred to by Mr Punchard, Carrington's technical services manager, who has worked at the site for 31 years.

Those measures make a tour of the complex a soulless affair, involving little human contact. However, the cuts at Carrington, which in spite of the changes remains one of Britain's biggest chemical production sites, has turned what in the early 1980s was a problem site into a star performer.

Shell, heartened by the turnround, is considering a range of investments at Carrington, which, by increasing output at the site, might help to reduce Britain's large balance of payments deficit in plastics.

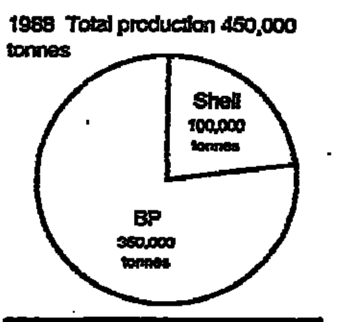
Shell is expected today to outline possibilities for new capital projects at the site.

The most important scheme is likely to be the construction of a new pipeline to bring to Carrington, from other UK chemical complexes, supplies of ethylene, a vital raw material for plastics.

Polyethylene in UK

1988 Total consumption 1m tonnes

1988 Total production 450,000 tonnes



The pipeline, together with other investment schemes for Carrington, is likely to involve a total outlay by Shell of more than £100m.

Carrington, which lost £150m between 1980 and 1984, is now making a profit and the workforce that is left appears to have a secure future.

The demolition programme at the site led to a bonanza for local scrap dealers. Other beneficiaries have included 88 small companies, in fields such as computer services, which rent office buildings at Carrington vacated by Shell during the staff cutback. Those companies employ 350 people on the site.

Many of the moves at Carrington mirror events in the chemicals sector generally. In the early 1980s, demand for many bulk chemicals plummeted. The industry, faced with widespread overcapacity, plunged into a gloomy period of falling sales and wafer-thin profits.

Carrington, which produces some 350,000 tonnes a year of plastics and other commodity materials, such as detergent additives, was no exception to the general pattern. Faced with the decline in fortunes at the site, Shell considered closing it.

Instead, the company cut the workforce and insisted that all remaining employees agreed to work on a highly flexible basis. That did away with demarcation lines between different types of craft-based and technical work and ensured higher efficiency.

Partly because of that — but also because of the better market conditions for many bulk chemicals in the past two years — Carrington now has a bright future, according to Mr John Wellings, the site manager.

Sales are at the same kind of level as in the early 1980s, when the site had many more workers. The difference is that at the beginning of the decade the complex made far more intermediate chemicals as feedstock for its final products; these are nowadays mainly piped in from other chemicals facilities or transported by road.

Mr Wellings also points out that, as another result of the change in working conditions, the site's safety record has improved considerably. He believes that the better financial performance has raised morale at the site and says that that, coupled with the principle of flexible working, has led to the rate of accidents being well below the rate in the chemicals sector generally.

The complex is now experiencing one significant work mishap every 1m man-hours, compared with a level of 8-10 per 1m man-hours in the early 1980s.

In the light of the overall change in the site's fortunes, Shell is considering a range of investments. It is already spending £48m on a new plant at Carrington to make polypropylene, a plastic with a fast-growing market that is used in a variety of industrial and consumer goods.

A more substantial programme under discussion might involve a new plant at the complex to make polyethylene, the world's biggest-selling plastic, which is mainly used in packaging, films and household containers.

Linked with this scheme is the plan for a new pipeline to bring ethylene, the main raw material for polyethylene, from Britain's main ethylene production facilities on Teesside and in Scotland.

Mr Wellings points out that Carrington has to compete with the company's other big plastics sites in Europe for new investment. He believes, however, that Carrington has done enough over the past few years to demonstrate that it is worth spending money on. He says: "In Shell's eyes we can be considered a good place for polymers development."

Although Britain's trade performance is not a factor in Shell's discussions over possible investment at Carrington, any move to expand polyethylene output at the site would undoubtedly ease the country's balance of payments difficulties in plastics generally.

Carrington currently makes about 100,000 tonnes a year of polyethylene, nearly a fifth of Britain's total output of the material, the only other UK-based supplier is British Petroleum. Any new investment at Carrington could be expected to lead to a substantial increase in the plant's polyethylene output.

In recent years, UK demand for the plastic, which is about 1m tonnes a year, has risen considerably faster than domestic supply. That has benefited big overseas makers of polyethylene such as Dow Chemical of the US and West Germany's BASF. It has led to an annual UK trade shortfall in the material of about £300m — an important part of Britain's total balance of payments deficit in all plastics of £700m.

Britain's poor trade record in plastics takes some of the gloss off the performance of the UK chemicals sector generally — which has overall net exports of about £2bn a year — and has been the subject of some concern in Britain's chemicals community in recent years.

Any talk of extra investment at Carrington is not wholly welcomed in all quarters.

Mr Stuart Wamsley, a respected chemicals-industry analyst at the London office of Morgan Stanley, the US investment bank, said that Shell would be unwise to consider anything more than a small increase in polyethylene capacity at Carrington.

He added that the world market for polyethylene — and for many other types of bulk synthetic materials — was in danger of becoming overheated because of the investment plans of companies around the world.

Polyethylene production capacity worldwide was likely to increase by nearly 30 per cent by 1992 to about 58m tonnes, he said.

If all those projects went ahead, prices might fall, causing a nosedive in chemicals industry profits, in much the same way as in the early 1980s.

Whatever the outcome of the talks involving an expansion at Carrington, the overall employment figure at the site is unlikely to change substantially.

Managers at the site said they found it difficult to believe how the complex had operated on its past levels of manning.

Mr Punchard said: "We are basically doing much the same work with far fewer people but I don't think we would ever have bitten the bullet to such an extent if we hadn't been on the brink of closure."

Hong Kong plan for mobile phone maker

By Terry Dodsworth, Industrial Editor

TECHNOPHONE, the UK's only indigenous mobile telephone manufacturer, is planning a large-scale expansion later this year with the start of production at a new plant in Hong Kong.

The Hong Kong facility, a joint venture with a local company called Video-Technology, will allow Technophone to diversify into the mass market for car telephones fixed inside the vehicle. At present, the company makes only portable phones, which are more sophisticated than standard car telephones and more expensive.

Mr Nils Martensson, managing director, says the decision to invest in the factory is aimed partly at helping the group to expand in the US, where portables account for only 10 per cent of total sales.

At the same time, the move marks the group's determination to challenge the big international electronics groups that dominate the car telephone market.

Over the longer term, Mr Martensson says he wants Technophone to become a large volume manufacturer numbered among the top five world competitors. Market leaders include Nokia, the diversified Finnish electronics group, Motorola of the US, NEC and Toshiba of Japan, and Novatel, the Canadian group.

Technophone, based at Camberley, Surrey, was launched 3½ years ago with £3.5m of equity. It employs about 400 people and generated turnover last year of £40m.

The company already has one overseas manufacturing investment in Australia, where it has been forced to set up production lines to meet local content regulations.

Its decision to chose Hong Kong for the factory is based on a number of factors, including its proximity to both the rapidly growing local market and to the broadly based Far Eastern components industry.

Manufacturing costs will also be lower, mainly because of cheap labour. The cost structure will be extremely important in tackling the fixed car phone market, Technophone says, because it is a large volume industry with fierce price competition.

Rosyth yard to refit nuclear sub

ROSYTH Royal Dockyard has won a £75m contract to refit the nuclear submarine HMS Churchill.

The two-year deal comes less than two years after the docks were privatised and management transferred from the Defence Ministry to Babcock Thorn (now FKI Babcock).

The dockyard, which employs 5,400 workers, will win extra profits if work is completed below the target cost — and incur losses if the budget is overrun.

Ulster voting poll

A MAJORITY of people in Northern Ireland would consider voting for the main British political parties if they organised in the Province.

An opinion poll in the Belfast-published Sunday Life yesterday showed 58 per cent would be inclined to vote for the main parties.

Support was fairly evenly divided between Catholics and Protestants.

Plasterboard appeal

BPB Industries, Europe's biggest plasterboard manufacturer, has lodged an appeal against a Ecu3.15m (£2m) fine imposed by the European Commission for using illegal means to stop imported Spanish plasterboard being sold in the UK.

The fine was imposed under Article 86 of the Treaty of Rome. BPB's appeal has been lodged with the EC's Court of Justice.

Labour urges scrapping of water sell-off

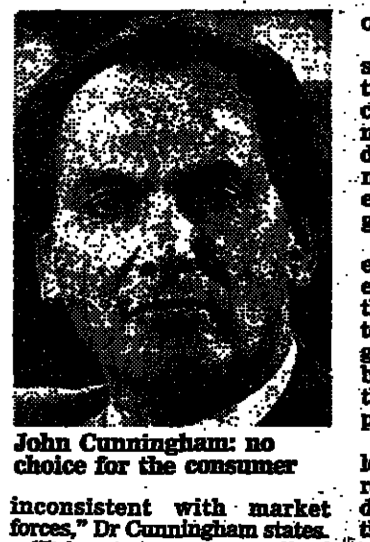
By Charles Hodgson

THE LABOUR PARTY will today call on the Government to abandon its controversial plan to privatise the water industry at the start of concerted week-long campaign to seize the Tory initiative on environmental issues.

Mr John Cunningham, Labour's environment spokesman, has written to Mr Nicholas Ridley, Environment Secretary, demanding the scrapping of the water bill, which Labour claims threatens consumers and the environment.

Describing the bill as "weak, confused and incoherent," Mr Cunningham accuses environment ministers of failing to answer fundamental questions of future pricing, pollution, water quality and protection for national parklands.

"The creation of large private monopolies will leave consumers no choice and therefore no opportunity to benefit from competition. Indeed the 'heavy regulation' you envisage is inconsistent with market forces," Dr Cunningham states.



John Cunningham: no choice for the consumer

"It is not necessary to sell off the water industry and half a million acres of public land . . . to achieve the better standards which the British people want and our European obligations demand," he adds.

Boosted by opinion polls that show widespread public opposition to the water bill and concern about broader environmental issues, Labour is determined to wrest the "green mantle" claimed on the Government's behalf by Mrs Margaret Thatcher.

Labour believes that the environment has joined the economy firmly at the head of the political agenda and aims to exploit what it regards as government vulnerability on both counts in the run-up to this summer's local and European elections.

Mr Neil Kinnock, the Labour leader, is to play a prominent role in what party spokesmen describe as a "sneak attack" this week on the Government's environment record.

Mr Kinnock and other senior party spokesman intend to highlight national and regional environmental issues, concentrating on water pollution.

They plan to counter government attempts to address environmental concerns this week, ahead of the opening in London next Sunday of a three-day conference on the threat to the ozone layer.

Mr Cunningham will call on Mrs Thatcher, who is to speak at the conference, to use the occasion to press for positive steps to reduce use of harmful chlorofluorocarbon gases.

Mr Gordon Brown, Labour's treasury spokesman, will publish figures later this week which seek to show how public expenditure on pollution control and environmental research have been cut under the present government, supporting Labour's claim that UK environmental standards lag behind those of our European Community partners.

Mr Brown will also launch a "fair tax" campaign in the run-up to next month's budget, highlighting anomalies in the tax system.

Coal chiefs encounter amphibious obstacle

By Maurice Samuelson

HAD Mr Roy Proctor been born in China, he might have called this the year of the great crested newt.

The small, shy amphibian symbolises Mr Proctor's difficulties in running the opencast mining business in England and Wales.

British Coal's Opencast Executive, of which he is director, wants to extract coal from the Cutacre tip, near Salford, listed in the Guinness Book of Records as the biggest eyesore of its kind in Europe.

Mr Proctor's proposals would have cleaned up this ugly relic. But the Nature Conservancy Council, discovering that it was home, sweet home to the newt, prevailed on Mr Nicholas Ridley, Environment Secretary, to block the mining application.

Mr Proctor is revamping the plan so that it provides a built-in freehold for newts.

The episode illustrates the frustrations encountered by the Opencast Executive in obtaining permission for new sites.

The executive, which makes an operating profit of more than £200m, has about 40 sites in production at any one time. They produce 12m-15m tonnes of coal a year and, together with sites in Scotland producing a further 2.5m tonnes, provide one of the cheapest sources of fuel in Britain.

But just to maintain that level of output Mr Proctor requires authorisations for about 12 new sites a year. Until 1984, applications enjoyed a 90 per cent success rate. But in the past few years, refusals have increased and in 1987-88 only five out of 11 requests were granted. Most of them were for smaller sites, containing only 22 per cent of the total reserves applied for.

There are two main forms of objection — environmental and political. There is the natural anxiety of local communities about the effect of a large-scale earth-moving project.

There is also the suspicion in Labour-controlled districts that opencast production is being expanded to facilitate the long-term rundown of the underground mining industry.

On both fronts, BC is taking the offensive. On the political and economic front it points out that 15,000 people are employed by its opencast contractors and that the coal they produce does not replace British underground production but helps to keep out cheap imports worth £500m a year.

On the environmental question, BC says that, as at Cutacre, its operations are designed to leave their sites more attractive than when the mining began. "We're really a property developing business," says Mr Proctor. In rural areas, new land is created for farming or for recreation centres and in urban areas, derelict land has been freed for housing, shopping sites, and industrial estates. In Sheffield, opencast mining may give the city land for its first airport.

The executive says: "We are cleaning up the dirty end of the industrial revolution."

Its application rate has started to improve. But in the year of the great crested newt, it cannot yet afford to be too confident.

Broadcasting plans criticised

By Raymond Snoddy

THE GOVERNMENT has received further criticism of its proposals on broadcasting from organisations ranging from the British Medical Association and the Trades Union Congress to academics from the Centre for Television Research at Leeds University.

The TUC claims in its evidence to the Home Office, published today, that the broadcasting white paper runs counter to the interests of listeners, viewers and media workers. It argues that the abolition of the Independent Broadcasting Authority and the awarding of franchises to the highest bidder "will ensure that money, not quality, is the primary objective of television companies."

Mr Norman Willis, TUC general secretary, says the white paper claims to put the interests of viewers first "and then systematically ignores or attacks all aspects of radio and television which now benefit consumers."

The BMA is concerned about the lack of programming requirements for future independent television contractors, and about the danger of opening the floodgates to programme sponsorship by companies producing harmful products such as cigarettes.

"The BMA believes that there should be programme requirements to safeguard social action broadcasting across all channels in the face of the possibility that increased competition may force more popular channels to drop all health education programmes if the white paper proposals are implemented."

Mr J. Blumler, director of the Centre for Television Research at Leeds, gave a warning at the weekend that multi-channel television would make life difficult for broadcasters, whatever the Government decided. Mr Blumler, speaking in York on the policy implications for Britain of the US experience, said three predictions could be made if the proposals were implemented unchanged.

- There will be more entertainment in prime time, with minority-interest programmes facing reduced funding.
- Quality will be diluted and UK-made programmes will gradually lose their distinctive British hallmark.
- The Independent Television Commission will face increasingly sharp regulatory dilemmas because of different obligations for different channels.

Investment laws regulation to be simplified

By Heather Farmbrough

MOVES by the Department of Trade and Industry to simplify the regulation of the Financial Services Act and to reduce the costs of compliance are expected shortly.

That follows the rewriting of the Securities and Investments Board's rule book last year.

Changes to the act — from which the SIB derives its authority — are likely to be made where simplification is proved necessary. That would allow each self-regulatory organisation greater flexibility to draft its own rules.

The DTI is understood to be considering altering the act by amending the Companies Bill, which was given an unopposed second reading in the Lords last month. The moves follow criticism that the costs of compliance are placing too great a burden on intermediaries.

In November, Mr David Walker, the SIB chairman, set out proposals to simplify the board's conduct of business rules.

Last week, the SIB issued proposals that might save small independent life assurance and investment advisers about £2m a year. It wants to drop the requirement for independent advisers to prepare annual financial statements, undergo independent audits and a solvency test each year.

Free houses reject move to buy S&N

By Lisa Wood

MOST FREE trade customers of Scottish & Newcastle Breweries, the Edinburgh-based brewer, oppose the proposed £1.6bn takeover by Elders IXL, says a survey commissioned by S&N, which brews McEwan's lager.

Free trade customers are distinct from tenants obliged to take their brewer's brands. Of free traders surveyed, 70 per cent said the takeover would cut competition or create a monopolistic giant offering poorer service; 13 per cent backed takeover; 17 per cent had no opinion.

Elders IXL, owner of Courage, aims to introduce its Foster's lager to S&N. Free traders fear that Elders would reduce the number of S&N brands. William Younger, the S&N subsidiary serving the free trade, offers a wide variety of brands.

The survey was by Millward Brown Market and Social Research. The Monopolies and Mergers Commission is to report to the Trade and Industry Secretary on March 9.

Ship canal company 'will keep SE listing'

By Martin Regan

A PUBLIC inquiry in Manchester has been given assurances that the Manchester Ship Canal Company will neither relinquish its Stock Exchange listing nor make a rights issue.

The assurances were given by Mr Leolin Price, QC, for the company on the last day of a two-week inquiry convened by the Department of Transport. The department is considering changes to the company's borrowing powers and board structure that have been proposed by Mr John Whittaker, the property developer who has been the majority shareholder since 1986.

The inquiry had been sought by minority shareholders.

Speaking after legal argument concerning the protection afforded to smaller shareholders by the company's present constitution, Mr Price said there was "no practical chance" of a rights issue unless arrangements were included to insure that there was no monetary transfer of value from ordinary shares to preference shares.

The statement failed to allay objectors' fears. Afterwards, Mr Nicholas Berry, former chairman, questioned the value of the assurances, since Mr Whittaker had failed to attend the inquiry.

Mr David Crome, the inquiry chairman, said Mr Whittaker's presence would have shortened the inquiry. "I can only report to the Secretary of State and allow him to draw his own inference," he said.

Mr Price argued that Mr Whittaker's presence had little relevance to the main points at issue and would merely serve to satisfy those who were intent on "re-fighting the bad-tempered takeover battle."

Mr Price went on to add that if the Secretary of State thought it proper to limit the new borrowing powers within the Harbour Revision Order, the company would still be fully supportive of the order. The question of extra borrowing powers, he said, was a side issue.

Summing up the need for change, he said: "The constitution of this company is unsuited to business, unsuited to its business and out of line with what is appropriate for the conduct of business today."

Mr Charles Sparrow, QC, for the objectors, claimed the order was nothing more that an attempt by a property developer to benefit from the property assets of the company. "It is a very practical exercise designed to remove control," he said.

Mr Sparrow was also highly critical of the company's policy of not paying dividends.

Mr Crome's report is likely to take months to emerge, as both sides still have further legal documents to submit.

DIARY DATES

Trade Fairs and Exhibitions: UK

February 28-March 2
International Powder, Granule & Bulk Solids Exhibition – POWTECH (0853 716244)
G-Mex Centre, Manchester

March 7-April 2
"Daily Mail" Ideal Home Exhibition (01-222 9341)
Earls Court

March 12-14
British Footwear Fair (01-739 2071)
NEC, Birmingham

March 16-19
Cable and Satellite Exhibition (01-486 1951)
Olympia

March 19-21
International Cycle & Leisure Fair (01-390 2211)
Olympia

March 21-22
British Institute of Management Exhibition and Conference (0536 204222)
Wembley Conference Centre

March 24-25
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall, London

March 29-31
Fashion Fabrics Exhibition – FABREX (01-385 1200)
Olympia

March 30-April 5
British International Antiques Fair (021 780 4171)
NEC, Birmingham

Overseas Exhibitions

February 28-March 3
Computer and Communications Exhibition – MEXICO COM EXPO (01-977 3474)
Mexico City

March 12-18
International Spring Fair (0375 392222)
Leipzig

March 17-20
International Footwear Fair-GDS (01-794 0166)
Dusseldorf

March 23-28
International Nuclear Technology and Instrumentation and Equipment Exhibition – NT & IE CHINA (01-229 2616)
Beijing

March 30-April 9
International Household Fair – HUISHOULDBEURS (01-741 4437)
Amsterdam

April 4-7
International Airport and Aerospace Engineering Exhibition and Symposium (01-493 0992)
Osaka

Business and management conferences

February 28
IBC: Protecting and insuring against country risk in trade (01-236 4080)
The Tower Hotel, London

March 1-2
IBC/Money Management Council: The effects of the Financial Services Act on the Financial Services Industry and the Consumer (01-236 4080)
London Press Centre, EC4

March 2-3
The Economist Conference Unit: 1992 and beyond - practical approaches to human resource and management development issues (01-839 7000).
Hyatt Regency, Brussels

March 6
Financial Times Conferences: The London Motor Conference – Manufacturing, Components and the Aftermarket (01-925 2323)
Hotel Inter-Continental, London

March 10
CBI: Competitive advantage (01-379 7400)
Centre Point, London

March 14
Institution of Mining and Metallurgy: Metals 2000 – A definitive assessment of trends in the major metals over the next decade (01-580 3802)
Park Lane Hotel, London

March 15
PRO NED/Birmingham Chamber of Industry: Non-executive directors – a way to building a better business (01-637 2281)
Edgbaston Banqueting Centre

March 20-21
Financial Times Conferences: Retailing in the 90's – The role of technology (01-925 2323)
Hotel-Inter-Continental, London

March 22
The Institute of Economic Affairs: Tensions and opportunities in Britain's EC relationships (01-799 3745)
Queen Elizabeth II Conference Centre, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

PARLIAMENTARY

TODAY

Commons: Debate on agricultural prices. Motion on EC document relating to Community strategy on forestry.

Lords: Law of Property (Miscellaneous Provisions) Bill, Third Reading. Security Services Bill, Second Reading. Junior Hospital Doctors (Regulation of Hours) Bill, Committee. Question to Government on White Paper "Employment for the 1990s".

Select Committees: Public Accounts: subject, Bus fuel grants; Road maintenance backlog. Witness: Sir Alan Bailey, Department of Transport (Room 16, 4.30 p.m.)

Environment: subject, British Waterways Board. Witnesses: Environment Department officials (Room 21, 5.15 p.m.)

Tomorrow

Commons: Debate on Royal Navy.

Lords: Prevention of Terrorism (Temporary Provisions) Bill, Committee.

Select Committee: Members' Interests: subject, parliamentary lobbying. Witness: GEC (Room 15, 4.30 p.m.)

Wednesday

Commons: Debate on Welsh Affairs.

Lords: Debate on food production. Question to Government on inquiry into Thames Television programme "Death on the Rock".

Select Committees: Foreign Affairs: subject, Funding for overseas students. Witnesses: Foreign Office and Overseas Development Office officials (Room 8, 10.30 a.m.)

Trade and Industry: subject, Privatisation of Girobank. Witnesses: Post Office and Girobank officials (Room 15, 10.30 a.m.)

Public Accounts: subject, Sports Council. Witness: Sir Terence Heiser, Department of Environment (Room 16, 4.15 p.m.)

Transport: subject, Roads for the future. Witnesses: Mr C. Buckmaster, British Aggregate Construction Materials Industries. (Room 17, 4.15 p.m.)

Thursday

Commons: Debate on housing. After 7 p.m. debate on EC documents on annual report from European Court of Auditors for 1987 and related matters.

Lords: Companies Bill, Committee. Police Officers (Central Services) Bill, Second Reading.

Friday

Commons: Private Members Bills.

FINANCIAL

TODAY

COMPANY MEETINGS-
Densmans Electrical, Waterfhed Media Centre, 1, Canons Road, Bristol, 12.00
Dewhurst, Melbourne Works, Inverness Road, Hounslow, Middlesex, 4.00
Whessoe, Savoy Hotel, Strand, W.C., 11.30

BOARD MEETINGS-
Finals:
Appleyard
BPP
Bensons Crisps
Commercial Bank of Near East
Cooper (Alan)
EFT
Norton
Porvair
Sedgwick
Serco
Suter
UTC
Uptown Inv.
Wales City of London Props.
Interims:
Allied Restaurants
Armitage Bros.
Manganese Bronze
Thorntons

[illegible]

TOMORROW

COMPANY MEETINGS-
[illegible]

WEDNESDAY MARCH 1

COMPANY MEETINGS-
[illegible]

THURSDAY MARCH 2

COMPANY MEETINGS-
[illegible]

FRIDAY MARCH 3

COMPANY MEETINGS-
[illegible]

SATURDAY MARCH 4

BOARD MEETINGS-
Interims:
Sone Darby Berhad

CONSTRUCTION CONTRACTS

Berkshire retail complex

A £30m construction contract for a joint Marks & Spencer and Tesco development, to be known as "The Meadows", in Sandhurst, Berkshire, has gone to KYLE STEWART.

The development comprises two stores, each of 100,000 sq ft, linked by an eight metre atrium with a restaurant on ground level. Construction is of steel frame with brick cladding and Alukabond facias and pitched tiled roofs. External works comprise extensive landscaping and parking for 2,200 vehicles.

The site is beside the River Blackwater and special provisions have been agreed with the Thames Water Authority to raise the level of the site to avoid flooding. Special provisions were made in the removal of topsoil, including some rare flora, to the new landscaped areas of the site.

Associated with the development is about one kilometre of road works, together with a roundabout system at the access to the site from the A30. Work began in November 1988 and is due for completion in February 1990.

Fitting out York store development

WIMPEY CONSTRUCTION UK has been awarded contracts totalling more than £8m.

Marks & Spencer has awarded a management contract for fitting-out its newly-extended store in the Coppergate Centre, York. The four-month contract includes fitting-out the basement; provision of a ground floor food hall; first floor furniture and homeware shop; and backstage areas for stock holding and staff facilities.

A fast-track management contract has been awarded by Teesside City Technology College for the £4m Macmillan College in Stockton Road, Middlesborough, a comprehensive secondary school. Work comprises refurbishment and structural alterations to the college, a two and three-storey extension of 3,750 sq metres and a link bridge. The 12-month contract includes science laboratories, a lecture theatre, craft areas and computer rooms.

Submarine base

A. MONK & CO has been awarded a Property Services Agency contract at the Clyde submarine base, Faslane. Worth £14m, it provides for the refurbishment and extension of workshops in the naval technical department. Over 100 jobs are expected to be created during the three-year programme, due to start next month. Work is expected to be completed by 1992.

Orders continue to rise

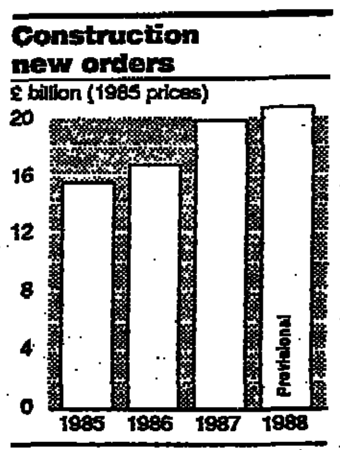
By Andrew Taylor, Construction Correspondent

TOTAL ORDERS received by contractors for construction work in Britain rose by 5 per cent last year, according to the Environment Department.

The latest order figures produced by the department show that contracts worth almost £20.7bn at 1985 prices were placed with contractors last year. This compares with orders worth £19.7bn in 1987.

British construction orders in current prices rose from £22.1bn in 1987 to £26.3bn.

Since 1985 the volume of orders won annually by contractors working in Britain has risen by more than a third.



The department's figures show order books continued to increase sharply in the final three months of last year. Orders during the final three months were 10 per cent higher than during the previous three months and 22 per cent higher than in the corresponding months at the end of 1987.

The increases are in line with recent forecasts which expect construction output to rise by a further 3 per cent to 4 per cent this year.

The biggest increase in orders last year was for private commercial work where the value of contracts at 1985 prices rose by 24 per cent. Comparisons on industrial orders were distorted by the inclusion of the entire Channel tunnel in 1987 figures, even though the work is not due to be completed until 1993.

Private industrial orders during the final three months of last year provide a better guide to recent trends. These show orders 19 per cent higher than in the previous three months and 41 per cent higher than during the final three months of 1987.

Private housing orders increased by 4 per cent last year while public housing orders fell by 10 per cent. Public works orders, other than housing, rose by just over 1 per cent.

Crown Courts in Newport

ALFRED McALPINE CONSTRUCTION South Wales region has been awarded a £7.24m contract by the Government's Property Services Agency (PSA) to build Crown Courts in Newport, Gwent. The building will be sited in front of the Newport Civic Centre.

Designed by PSA (Wales) architects, it comprises three levels: car parking is in the basement and the three court rooms with additional accomodation are on first and second floor levels. The building is to be constructed as a reinforced concrete frame with retaining walls and slabs on piled foundations. The reinforced concrete/concrete block walls will be faced in Portland stone and the main roof will comprise "Broderick" cladding supported on steel trusses. The project will be supervised by Property Services Agency, Wales

IN BRIEF...

SIR ROBERT McALPINE SONS has been awarded a £13m contract by Unisys UK to build a warehouse/office block at Milton Keynes that will be used as a logistics centre.

The building, with a total floor area of 21,500 sq metres, will contain 12,000 sq metres of office accommodation over two floors with the remaining space providing a single-storey warehouse. Work includes the installation of two lifts and service hoists, the provision of full canteen facilities, the construction of main access and service roads and extensive landscaping.

★

NORWEST HOLST MANAGEMENT CONTRACTING has won an £8.5m contract for a leisure pool, to be built on the former Benskin's Brewery site in central Watford.

The project, for the Borough of Watford, will include the construction of a 1000 sq metre freeform leisure pool with two 12 metre high flumes together with a 25 metre long, six-lane competition pool, a learners' pool and a health suite. Catering and spectator viewing facilities will also be provided together with car and coach parking. Work began in January and is scheduled to last 15 months.

★

JOHN DOYLE CONSTRUCTION has been awarded a £7.1m substructure contract for the Howard Centre complex at Welwyn Garden City, Hertfordshire.

This first phase of the development is for the construction in reinforced concrete of a deep basement and underground service road, which will provide access for heavy goods vehicles and public transport to the centre.

Work has started and the company is working to a fast-track programme to complete in 29 weeks.

★

Kent County Council has awarded FAIRCLOUGH CIVIL ENGINEERING a £5.5m contract for highway improvements in Maidstone, a two-year project. It entails constructing a 1km highway link of part wide-single and part dual-carriageway between Mote Road and the A249 road to Sittingbourne, with a gyratory junction where it crosses the A20 to Ashford plus a 120 metre long by 25 metre wide multi-span reinforced concrete viaduct on piles, over the River Len valley. Completion is programmed for November 1990.

Building Stansted Airport rail tunnel

Excavation work has started on the 1.8 kilometre-long tunnel which will carry the Stansted Airport rail link beneath the Essex airport's main runway and on to the new passenger terminal, scheduled to open in 1991.

The work is being carried out by tunnelling specialists, J.MURPHY & SONS, under a contract worth more than £11m, using a giant full-faced tunnel boring machine specially brought in from Singapore.

Working round-the-clock and tunnelling at an average depth of nine metres under the runway, the 6.08 metre diameter single-track tunnel will be completed by the end of June 1990.

Construction of the rail link involves building a 5.4 kilometre stretch of railway from the London/Cambridge main line terminating in a three-platform station beneath the concourse of the new airport buildings.

Office facilities in Woodford

The DEW GROUP has won orders totalling more than £23m in the last four months. Among the awards are a £7m design and build project for an engineering and design block for British Aerospace at Woodford consisting of 180,000 sq ft steel-framed three-storey brick and metal clad office block, air-conditioned with tinted double-glazed windows; a chemical production building for Courtauld Engineering worth £2.27m; and a phase 2 factory extension for British Vinegars valued at £2.22m.

CONTRACTS & TENDERS

COMPANY NOTICES

LEGAL NOTICE

RENTALS

MANAGEMENT

Aveling Barford

How the earth shifted under a dump truck maker

Nick Garnett on the buy-in team's hopes for reviving the troubled UK company

David Clement stands in one of the cavernous, near-empty factory buildings on the huge Aveling Barford production site and contemplates what befell the company where he has worked for 28 years. "If you ask me who did the most damage here, management or unions, you would have to say it was just about equal."

The earthmoving equipment maker, famous for its big dump trucks, is a classic study in the terrible things a management can inflict on a business. Along for the ride went the grip of restrictive trade unionism which filled the vacuum left by incompetence at the top.

Aveling is also a symbol of rebirth. Since what was the UK's biggest construction machinery producer slid into receivership last June, a management buy-in team has moved on to the 67-acre site at Grantham, in Lincolnshire. About 300 workers have been re-recruited, including Clement as fabrication shop manager.

With products ranging from a £27,000 road roller to a £195,000 dump truck, the new company expects to do at least £25m worth of business in its first full year.

"In no circumstances will I fail," says a very confident Duncan Wordsworth, former head of European operations at Coles, the mobile crane maker, and chairman of the new business. Wordsworth holds 83 per cent of the shares in Aveling Barford (Machines).

The demise of the old Aveling is a sad affair, compounded by the questions still unresolved in the small Lincolnshire town as a police fraud team continues its investigation into a large shortfall in the old company's pension fund.

With its roots going back to 1867 when the former Aveling & Porter supplied the world's first steam-powered road roller, Aveling was the UK's biggest construction machinery supplier when British Leyland absorbed it exactly 100 years later.

Aveling was none the less a small supplier compared with monster companies like Caterpillar of the US. But it was a substantial producer of rigid-bodied dump trucks, graders, and road rollers, with a workforce of 3,000 and some big contracts under its belt or about to be signed, including one for Egypt's Aswan Dam project.

From the arrival of BL in the massive and disastrous restructuring of the UK's vehicle and mobile equipment industry, Aveling was plunged on a downward course.

"The British Leyland period was pretty well a total disaster," says Steven Dexter, production manager of the new company. "They did a lot of damage to this company," says Clement. "People became numbers under British Leyland," says John Twycross, the new company's workshop manager and an Aveling employee for 26 years. "People used to be proud of working here. But this was a totally different type of business from what Leyland was used to. It was very unfortunate."

The state-owned group did some positive things. It introduced new dump truck models, for example, and forked out £9m on a new assembly shop. But in an industry where attention to shifts in equipment requirements and a fierce commitment to stay in the business are essential for survival, this was not good enough.

The industry was then moving away from rigid to articulated dump trucks, from static to vibrating road rollers and competitors were developing more advanced graders and wheel loaders. It all passed BL by. "It used Aveling as a management training ground," says Dexter. He felt there was no continuity.

Aveling got caught up in the tidal wave of shop floor demarcation and restrictive practices which swept through UK industry. Nowhere was it more widespread than in British Leyland factories. "With weak management you got labour power," says Twycross.

By 1983, after a world slump in machinery purchases, BL was ready to throw in the towel and shut it all down. At that point, in came the curious pairing of K.T. Lee, a member of a wealthy Singapore trading family, and Adrien Eschallier, a Philadelphia attorney. It was under their leadership that the company finally bled to death.

This period was not all bad. These two men, with Lee holding the majority stake, purchased a company no one else wanted. They kept it going for five years. They also bought the manufacturing rights to the Norwegian Nordstrom articulated dump truck in a belated move to catch up with the market.

The introduction of a 55 tonner has been achieved through some re-engineering and a larger cab and engine

But the fact is that Lee lived in Singapore and Eschallier in Philadelphia and neither spent enough time on site to provide the necessary management input.

Clement says Eschallier was brimming with ideas but never stayed long enough to push any through. "The worst time in the company's history was the last five years," says Twycross. "People here thought there would be a big change but nothing really happened. They just sat on it and did nothing so the business got worse and worse."

The company was further stricken when payments from China for a big dump truck contract there were halted because of foreign exchange difficulties. The company barely made any profit through the 1980s. The new company says the accounts showed it made a loss of £7m on sales of £35m in its last financial year.

In the 18 months before the company went under, the workforce complained that detailed drawings for dump trucks and other products were being removed for the purpose, they believed, of starting production outside the UK. When the receivers were called in by Aveling's bankers, the company had been humiliated and broken. The 600,000 square feet of covered space housed less than 900 employees.

Potential asset strippers were sniffing around the site, which Aveling has on leases of up to 21 years at peppercorn rent, but the receivers wanted to sell it as a going concern. Wordsworth, a sharp dressing, Jaguar sports-car-driving 48-year-old was looking for a company to buy, having attempted to mount a management buy-out at Coles some years earlier. "After that you never feel comfortable. I was left with this feeling that I should have owned Coles."

The Newcastle branch of the Bank of Scotland provided the bulk of the finance for the purchase cost of just over £10m. Wordsworth and his partners threw in virtually all they had but the company still has enormous capital gearing. The main partner, Stephen Lovely, the 35-year-old head of a venture capital operation in Coles' home town of Sunderland has 13 per cent, the remainder held by another former Coles manager and Wordsworth's brother, Conrad.

Sales of at least £25m were projected for the first year in the three year business plan with flat sales but rising profits for the next two years and with some of the debt cleared. The plan also included an intention to double the output per man achieved by the old Aveling before its death.

The purchase was met with a lot of scepticism from the construction machinery industry, not least because the industry expects overall equipment demand to peak soon.

Some said the new company would fail. It has certainly had to do a lot of work persuading potential buyers that it means business – a lot of customers have toured the site since the acquisition.

But benefits of the new management are already appearing. Restrictive practices have disappeared. When the company went into liquidation there was even demarcation between welders on the thickness of plate they were allowed to work on.

Some 26 tonnes of waste metal that had accumulated was removed. The stores and spare parts operation, a potentially lucrative business servicing vehicles already in the field have been streamlined. "The ability to have a part ready for delivery the same day of order was only 65 per cent. It is now 86 per cent and should be in the low 90s," says Wordsworth.

The company has been heartened by a single order for ten dump trucks to be used in a Cornish clay mine and has already begun rationalising products, with even more concentration on dump trucks.

Aveling is getting out of wheel loaders, small graders and vibratory rollers – though not static rollers. The overall market for vibratory machines has grown at the expense of static rollers but Wordsworth says demand has picked up recently for the statics. "We sell a hundred a year; there is no extra engineering to do on it and we make a return, so why not produce them?"

The dump truck range has been slightly broadened and increased by 5 tonnes in carrying capacity with the introduction of a 55 tonner, achieved by some re-engineering, a larger cab, and dropping in a larger Cummins engine compared with the 50 tonner.

Duncan Wordsworth: "In no circumstances will I fail"

The four wheel drive Nordstrom artic is being abandoned. Instead, the first models of Aveling's own six-wheel drive artic design – already prepared before the buy-in – have been assembled to replace it.

"We will take soon the strategic decision whether to build a larger rigid or a larger artic," says Wordsworth. Development of the artic will bring Aveling into confrontation with other very determined artic builders, like Volvo, Brown International with its Moxy range, DJB-Caterpillar and Terex.

Wordsworth is confident the new trucks and a more determined effort to expand exports (currently 40 per cent of sales with a target to raise it to 60 per cent), and to take the European market more seriously will compensate for the widely-expected market downturn. "Someone will have to make room for us," he says.

The new chairman developed a rather hard, no nonsense reputation at Coles. For some people it apparently verged on the authoritarian. "If you don't do what you are supposed to do now you had better watch out," says one of the shop floor hands at Aveling.

The new management structure is very centralised but it is simple. "The idea was to keep the structure flat. If you end up with too many levels you are in danger of not knowing what's going on in the business," says John Fishwick, a shareholder and operations director at the new company and a former manager at Coles.

Five directors, for UK sales, exports, operations, finance and site management report directly to Wordsworth. Some of these directors have no managers under them. A meeting of all directors and managers – a group of about twelve – is held every morning in Wordsworth's office.

All members of the workforce, grouped into teams, are briefed by their section heads at 8 am on what arose during the management meeting the day before. Anything brought up at those briefings can be raised at the management meeting the following day. Wordsworth walks around the production plant every afternoon. "Mr Wordsworth owns the company; you see him every day and you know what direction he wants," says Clement.

The earthmoving equipment market has boomed in the past few years but growth is bound to slow soon. It will not be easy for Aveling. But at least the new company has a leadership the workforce can relate to. That, at least, is a far cry from the absence of guidance which ultimately brought the former business to its knees.

Why computer-babble is counter-productive

Companies have been learning the hard way that their chances of successfully using information technology increase if they set business professionals to manage computing projects rather than their information systems staff.

Now a Brussels-based consultancy, the OTR group, has come up with a persuasive explanation for this phenomenon.

Its analysis of 60 typical analysts and programmers from 12 different companies suggests that the problem is rooted in personality. Technologically trained information systems (IS) managers just do not display the characteristics necessary to jolly along a project team to a satisfactory conclusion.

The IS managers fail to understand what a business wants. They are also poor communicators, unable to sustain an effective dialogue either with senior management or their own staff.

It is a damning personality fault, says OTR. "There is very little that can be done to improve this. Although some may quibble, you cannot change personalities by training."

Everyone knows, of course, that computer staff speak a jargon of the most impenetrable kind, but OTR's analysis is more profound. It argues that IS staff are lacking in "influence" and "dominance"; "their very personalities are not those associated even with average communicators."

Its analysis of analysts and programmers revealed below average levels of inluence and above average levels of steadiness. The same result emerged when IS managers were compared with business managers. OTR also found that most information technology specialists have poor knowledge of the business their company is in.

OTR suggests that the teams running applications designed to give their companies a competitive edge should be of mixed disciplines, thus providing an efective blend of personalities and skills.

OTR Groupe, rue du Commerce 124, 1040 Brussels, Belgium.

Alan Cane

LEGAL COLUMN

Advertisers move in to market the profession

By David Churchill

SAATCHI & SAATCHI, the advertising agency which helped Mrs Thatcher to three election victories, is turning its attention to helping the Bar Council defeat the controversial proposals for reform of the British legal profession put forward last month by Lord Mackay, the Lord Chancellor.

Saatchi & Saatchi is working on an advertising campaign aimed at persuading both the profession and the Government that the proposed changes are unworkable.

Barristers are being asked to come up with the funds to pay for the campaign although it is unlikely that enough will be found – even if the Bar wanted to – to finance several television commercials during News at Ten (the best time, it seems, to hit decision-makers).

More likely, the agency and Bar Council – along with its public relations consultancy Profile Public Relations – will come up with a more restrained and closely targeted campaign aimed at MPs and others in authority to get the proposals changed.

The Bar's decision to turn to advertising and public relations specialists to get its message across reflects the growing importance of marketing in the legal profession in recent years, aided by the relaxation in the mid 1980s of the Law Society's curbs on advertising by solicitors.

A number of leading City solicitors have made new appointments of specialist marketing partners or directors.

Stephenson Harwood, for example, recently brought in 30-year-old Mr Christopher Stoakes to a new post of marketing director.

The agency and Bar Council will come up with a campaign targeted at those in authority

"Marketing is not just about public relations and advertising," he says. "It is about pinpointing what existing and potential clients want so that a better service can be provided, he says."

He also sees his role in making the firm's partners and staff more aware of the need to be commercial and market-orientated in the increased competitive environment of the late 1980s.

Solicitors – like other professions which until recently managed to protect themselves from external competition – are being forced by deregulation to take marketing seriously.

Mr Ian Cooper, principal of Leeds-based marketing consultancy Ian Cooper Communications, points out that many solicitors "receive hundreds of enquiries for conveyancing every month but only about a fifth of these convert into new business."

He adds: "These solicitors may be wonderful but they just can't market: they must learn to present the benefits to their clients of doing business with them."

Mr Cooper is a recognised specialist marketing consultant under the Marketing Initiative Scheme set up last year by the Department of Trade and Industry.

This scheme offers financial support to companies and professional firms with fewer than 500 employees to employ a marketing consultant to help produce a marketing plan for the business. The DTI will pay half the cost of between five and 15 days' worth of consultant's time. In some areas of the country, the DTI will pay two-thirds.

Mr Cooper claims to be the first marketing specialist recognised under the scheme to concentrate solely on the legal profession. "We have already conducted substantial marketing audits for many firms of all sizes nationwide, and our listing means that many legal practices will now be able to obtain a financial contribution towards our fees," he says. "It will also enable more solicitors to turn to specialists like ourselves who talk the same language as the profession."

Marketing audits such as those carried out by Mr Cooper involve examining every way in which a firm communicates with others. It has to do with the way the telephone is answered at reception, the way clients are treated on arrival, the ability of a firm to "cross-sell" its services to existing clients, and other factors ranging from staff motivation to working conditions.

Mr Robert Neville of the London firm of Kingsford Forman & Routh Stacey, says that a marketing audit carried out for his firm "really did concentrate our minds and give us the impetus to take the necessary action to improve the marketing of our services, especially the cross-selling of services between our various departments."

Another firm which used an audit was Cardiff-based solicitor Merrills Ede. Mr Emyr Pierce, a partner in the firm, says that "the audit enabled us to identify the main areas for improving our overall services to clients and gave us an independent view of the operation." This, he adds, "avoided the inevitable bias which we would have when looking at it ourselves."

Many marketing plans often lead to a public relations strategy. A recent survey by The Lawyer magazine found that some 33 out of 43 top firms of solicitors surveyed employed a specialist public relations agency. A further eight employed in-house specialists – while only two firms had no PR capability at all.

Choosing a PR consultancy is something that often causes problems for firms of solicitors

Choosing and using a specialist PR consultancy is something that often causes problems for firms of solicitors. The first difficulty is actually in finding the right consultancy.

An initial step for solicitors should be to contact the Public Relations Consultants Association (Premier House, 10, Greycoat Place, London, SW1, 01-222 8866) who can advise on which consultancies specialise in the legal profession but cannot make recommendations.

The Institute of Directors also publishes a useful booklet, Choosing and Using a Public Relations Consultancy.

The most often voiced complaint from solicitors, however, is that their PR consultants "do not really understand us – how we work, what we want to achieve, and so on".

Both solicitors and their consultants, therefore, may need to learn to get to know each other better if they are to take full advantage of the changes to come.

* * * * *

Clifford Chance, London's largest law firm, has reacted angrily to statements from the Bar Council which it believes is predicting the wholesale recruitment of barristers by City firms if the proposed changes in the profession take place.

Sir Max Williams, joint senior partner of Clifford Chance, has written to the Bar Council pointing out that "we have no plans for the wholesale recruitment of barristers for advocacy work and, to the extent that we did develop an 'in-house' advocacy capacity, we would seek to do so with the co-operation of the Bar and not in opposition to it."

Sir Max added that he expected the position of most, if not all, other large City firms to be broadly similar.

LEGAL APPOINTMENTS

ARTS

Old relationships shaken and stirred

B.A. Young reviews regional theatre productions in Mold, Cheltenham and Leeds

Kingsley Amis has moved a step nearer the drama. *The Old Devils* at the Theatr Clwyd is presented as "the stage adaptation by Robin Hawdon of Kingsley Amis's novel," whereas last month the radio adaptation of *Girl, 20* was called *All Free Now*, by Tony Bilbow "based on" the novel.

These *Old Devils* rely so entirely on the book that there would be no point in softpedalling the title or the authorship. The stage is a chessboard where Malcolm and Gwen, Charlie and Sophie, Peter and Muriel are moved from square to square as old relationships are stirred anew by the return of Alun and Rhiannon.

Some detail and some characters are left out, but the basics are there. We just have the portrait without the frame. The only serious objection Mr Amis raised, I understand, was the use of soliloquy to add needful information not contained in the conversation, and this he conceded.

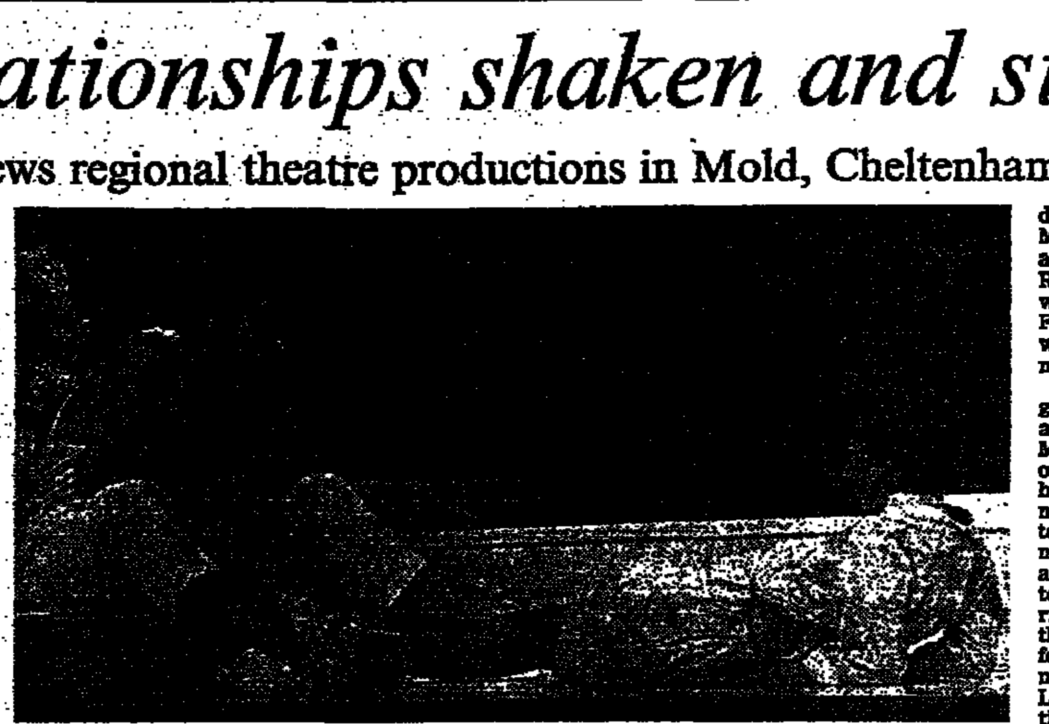
Alun Weaver (Philip Madoc, complete with the romantic snow-white hair), long absent from the south Wales community being a professional Welshman in England, is shown first in his television image in a projection upstage.

Then he comes from the station with his lovable and loving wife Rhiannon (Meg Wynn Owen) and the mischief starts. When she was young, Rhiannon had an affair with Peter (John Sharp, giving the right 18-stone impression), who made her pregnant and left her for another girl. She then became friendly with Malcolm (John Rowe) before ultimately marrying Alun and going to live with him in England.

There are other youthful liaisons to be recalled, and if possible reenacted, but to describe the sequence of confrontations that makes up the atmosphere that Amis has so skilfully built up, and Hawdon so cleverly rebuilt, would be no better than to describe a strip-cartoon by analysing each panel.

The action on the big Theatr Clwyd stage is more or less continuous for about three hours, moving from bar to house to restaurant with only a modicum of props on the crimson carpet. (Sean Cavanagh did the designs.)

The Amis talk is continuous too, funny, savage, pathetic as the need arises, and admirably spoken in the tongue of academic south Wales, though never in Welsh except for laughs.



Julian Freeman and Polly Irvin by the swimming pool in 'Twelfth Night'

Wales is a joke to these Welshmen, and evidently to the Welsh in the crowded auditorium, not to mention the English foreigners who come so freely to this theatre, for there was laughter all the evening.

Philip Madoc's Alun sets the Welsh standard high, and there is some good playing around him. Malcolm retains his usual restraint when his wife Gwen (Ann Firbank) attacks him with her handbag. Charlie has a frightening heart attack, but survives it, whereas Alun's later illness is almost instantly fatal without complications.

The wives are a varied lot. Peter's hard-faced English wife Muriel (Sheila Burrell) decides to retreat to England, and so leaves the field free for Peter to renew his old affection for Rhiannon, who has that affection of her own to trade, in a moving scene.

The wedding celebrations of Peter's son William and Alun's daughter Rosemary, though the speeches are only suggested electronically, add one truly happy event to an evening's parade of sad mirth.

★

At the Everyman Theatre, Cheltenham director John Doyle has set *Twelfth Night* in the swimming-pool at Orsino's palace, or perhaps at Olivia's house, it doesn't really matter, everyone uses it. Shakespeare set it in Illyria, but insisted on a sea-coast.

Chris Crosswell has designed a very posh pool, with classic columns surrounding it on three sides and a couple of fountains. People use the pool constantly; indeed Olivia falls into it on her way to get married to Sebastian. Although the date is early January, everyone is prettily tanned.

The text is virtually untouched, apart from some practical cutting. (We are out in well under two-and-a-half hours.) There must have been a temptation to insert a modern word here and there to go with the modern costumes, but no, here are the galliard, coranto and cinquepace where we might have had their current equals.

The text is in fact handled with the greatest respect, and never sounds unsuited to the anachronistic looks of the speakers.

The music that so touches Orsino (Julian Freeman, young, bearded) is a blues on an offstage piano. When Viola (Polly Irwin) enters, it is along the aisle down the middle of the stalls; to reach the stage she must use the steps that stand there permanently.

She is wearing a loose frock, but soon changes that for shorts and a top that conceals enough, except when she wants to reveal her true sex. Her twin Sebastian (Russell Porter) is different enough for us to know them apart when the others don't.

Viola struck me as unemotional, perhaps meaning to sound boyish. Margo Gunn's Olivia, on the other hand, in her brief black dress, is notably girlish. I was impressed by the resilience of her hair after swimming. (Everyone swims, even Malvolio, in a full-length bathing-suit.)

There is an outstandingly good Sir Toby from Gordon Reid, the playboy of the local Conservative Club in his flowered shirt and white slacks. Andrew Alston's Aguecheek, tall and sloppy, is just the kind of man this Toby would take under his avaricious wing; but it's only fair to say that they sing well together with Feste. Feste (Barry Killerby) I thought too young; the dialogue, and his choice of "Come away, death" as his party piece, show that he is old enough to be near the end of his contract. His singing of "When that I was," all five verses of it, at the end moved me uncommonly.

Stephen Earle's Malvolio reveals his love of respectability from the start, *sitting in a* deck-chair in dark grey and reading the *Financial Times*, when the others are in light summer kit.

To his yellow stockings he adds a kind of Highland dress that he contrives to make splendidly absurd. Maria, however, whom Liz Brailsford makes younger and prettier than we usually see her, is frivolous at once, with her black mini-skirt.

Modern dress Shakespeare, as Martin Hoyle wrote here lately, may be a cliché, but can set off reverberations. Here, it emphasises unambiguously how little the behaviour of the prosperous young has changed in the last 400 years.

★

There are two romantic tales at the core of *The Shoemakers' Holiday*, but the main theme in Dekker's comedy, now at the Leeds Playhouse, is the rise of master-shoemaker Simon Eyre to become Lord Mayor of London.

The romances concern the courtship of Lacy and Rose, daughter of the current Lord Mayor of London, Roger Otley, and the marriage of apprentice Ralph and Jane, interrupted when Ralph is sent to the French wars and comes home with one leg, to find his wife missing.

In the ever-present background, Eyre has made money, and been appointed Lord Mayor. He cannot fill this honour and run a trade as well, so he gives his firm to his foreman Hodge and promotes his top apprentice Firk to journeyman. Hodge (Andy Readman) always has a faintly executive touch, and in his new managerial personality he wears a three-piece suit that awes his former cronies. But you could make Trevor Laird's black Firk Lord Mayor and he would continue as athletically comic as he is as apprentice.

The play dates from 1599, but it has a lot in it that, *mutatis mutandis*, suggest the City of our own time. Jude Kelly, the director (also the new Artistic Director of the Playhouse), has emphasised neither 1599 nor 1989.

The laughs will last another century or so as long as the human race remains human; the energetic by-play and the costumes are about 80 per cent of our time. (The troops march off to France in battle-dress with old armoured helmets.) Incidental music is modern, mostly pop.

Dekker's verse, not the most elegant of its day, is not always recognisable as verse, but makes fine comic dialogue for an enthusiastically comic company.

Ainslie Foster's Rose need only be charmingly romantic, and so she is, but Guy Scantlebury has laughs to offer as a mock-Dutchman, and does it well. Robert Bowman's Ralph is genuinely pathetic, and amazingly active for a man with a wooden leg; his shopkeeping Jane (Sally Millest) will run their household for both of them.

Above all, of course, there is John Arthur's Simon Eyre, middle-aged (56, he tells us) with a great bush of hair at either temple and a great wealth of good-nature in his eye.

Linda Polan is his portly wife, sometimes addressed as Cicely Bumtrinket.

Tim Reed has already provided generous, witty, elaborate scenery such as I never expected to see on this little stage. What will Jude Kelly be doing when she gets her new Leeds Playhouse next year?

Die Frau Ohne Schatten

NEW THEATRE, CARDIFF

This is the first revival of the 1981 Welsh National Opera production – newly cast, and given once again in English (the right decision, even if Eric Crozier's translation exposes, when audible, some flatly prosy turns of phrase).

The opera has been a long time returning, presumably because Strauss's grandest and most formidably complex work requires a combination of time and (especially) money in the preparation that British regional companies find in somewhat short supply these days.

All praise to the WNO, as when first shown, it remains an impressive show, an intelligently staged, bravely played and sung account of a piece that should properly prove too big for such treatment.

It really is too big for the New Theatre: the recently expanded pit may house Strauss's orchestra, but the auditorium doesn't contain it – in full flood, and particularly at the moment when the vision of the Emperor turned to stone is revealed, the torrents of blackly granitic brass verge on the punitive.

In last season's superb *Salome*, Charles Mackerras confirmed his mastery of huge-orchestra Strauss in small houses; on Saturday he seemed not yet to have struck the proper (or at least the best available) balancing act, between work scale and theatre size, in this massively more ambitious and less well-judged operatic structure.

Until the third act, when the WNO orchestra were at last able to purvey delicacy of timbre and texture, in the ravishing evocations of trickling golden water beamed with light, there was too little variety of dynamics. It was exciting, without doubt, but cumulatively somewhat tiresome: one longed for some enlargement of the aural canvas.

Anne Evans

This highlighted the perhaps unavoidable weakness of Gilbert Deflo's production, an extremely skilful reduction of a spectacular operatic fantasy to a drama in faint outlines behind gauze on a mostly bare stage. The use of cloths, sheets, and veils to conjure up oriental theatrical magic has its limits of effectiveness: it is sensitive and thoughtful, but ultimately – and particularly in Act 3 – not quite enough.

This is, I think, a work whose padded-out theatrical apparatus and vastly over-elaborated play of symbols need all the help they can get. Deflo's fine-pointed concentration on the relationships is short measure.

Where the revival scores is in the casting of most of the principal roles, mainly from WNO members or regulars: only Philip Joll's Barak fails to meet fully the tremendous challenge (both the voice and the stage personality lack the necessary firm core of mature warmth).

Anne Evans, who in 1981 took the title role, now brings to Barak's wife the solidity of middle and low-register tone subsequently developed in the WNO *Ring*. Her "Barak, mein Mann" was a glorious, shining outpouring; in the early stages she needs to etch a sharper dramatic profile (particularly with her words) – an infusion of the caustic wit remembered from Pauline Tinsley's portrayal would not go amiss.

Jeffrey Lawton lavishes on the Emperor's two long arias the passion, vigour, commitment, and clean diction that usually come hard to occupants of Strauss heroic-tenor roles – not always seductive but winningly fearless.

The Empress of Christine Teare, a WNO soprano offered here her first big chance, justifies the company's confidence. The voice, of enormous potential, is not yet under perfect control, radiant and edgy by turns, but her willingness to give her all to the opera is also very winning.

Perhaps the happiest surprise is Gillian Knight's first nurse, gleaming with dark malice and authoritative (if not exactly comfortable) across the role's extraordinarily wide compass. (It's a pity the presence of so commanding a mezzo failed to persuade Sir Charles to heal some of the, as usual brutal, Act 3 cuts.)

Among the minor roles, all surely taken, Alastair Miles's Spirit Messenger is outstanding.

Die Frau is not by any means an opera that sings itself: many an international performance gets by on much smaller resources of Straussian vocal security than we heard and admired on Saturday.

Max Loppert

The Ghost Sonata

QUEEN ELIZABETH HALL

After the fuzzy obscurantism of Aribert Reimann's opera based on Strindberg's phantasmagoric chamber play, it was a great relief to see the play itself. It is a strange piece, but not densely difficult, and David Freeman's production in this Opera Factory London Sinfonietta season is confident, affecting and quite brilliantly arranged in stage conditions not even remotely ideal.

Andrew Clements outlined on Wednesday the treatment of Strindberg by Reimann. I would add only that the opera is a confusing reduction of the play in spite of some beautiful musical passages.

As in his *Lear*, which I find unremittingly banal and tiresome, Reimann has nothing to add to his source, and is not bent on some creative deconstruction.

Freeman is liberated by returning to the text, not seen on the British professional stage for 60 years and here given in a new version by Gregory Motton, a gifted new stage voice with a good ear for the random babble of street encounters.

This serves the opening scene very well. The rest, not too far from Michael Meyer's translation, is just a little more oiled and vital.

Whereas the visitors and ghosts huddle in a reflective circular labyrinth in the opera, designer David Roger can explode these transparent walls to reveal different facets of the interior.

What starts as a casual encounter between 80-year-old Hummel (Jerome Willis) and the heroic student Arkenholz (Adam Kotz), becomes a quest, a forced entry to a house of memory, recrimination and death.

The events are bizarre, but they have the driven coherence of Strindberg's fully expressed paranoid neuroses. This quality shines through the performance, which is sustained on all sides with skill and bravura.

Arkenholz is selected as Hummel's heir and medium. Hummel's lover, the Colonel's wife, is now a squawking, cupboard-bound parrot.

The tenuous delicacy of Christine Botes in the opera gives way to the vindictive, balletic swooping of Linda Marlowe in a built-up nose and grave grey face.

The Colonel (Richard Suart, stiffly comic having sung a less harshly regretful Hummel than Mr Willis's) is exposed as a fraud. The knife is wielded by Hummel gaining his come-uppance.

This undermines the whole basis on which we have attended to the play. Having established an encounter between Arkenholz and the beautiful daughter (Caroline Bliss), further expectations of youth repairing the damage are scattered to the winds.

This last scene, intensely played with Miss Bliss curling up in a sex-in-death foetal position, is played with all the walls slammed down and the ghosts ranged elegantly on the periphery.

The romantic mountain landscape consumes the dead girl, who takes her place in it like the girl disappearing in a rowing boat in Arnold Böcklin's "The Island of the Dead," the painting which Strindberg demanded and to which Freeman and Opera Factory, in a final flourish, have so wittily alluded. A superb revival.

Michael Coveney

The Train to Happiness

LYRIC THEATRE, HAMMERSMITH

The Russians visiting the Lyric, Hammersmith, had a lesson in free choice and market values on their opening night, when the performance was delayed for 15 minutes until some of the audience, exercising their choice to congest and pollute London's streets to immobility, managed to trickle in.

Succeeding the Vakhtangov Theatre's *Peace of Brest*, reviewed in these pages last week, Arkady Khyte's "scenes from Jewish life" make up a loosely-connected series of sketches.

The first half of the evening consists of revue-type items, shaggy-dog stories, anecdotes, even a music-hall monologue on Jewish husbands, delivered much as British comics talk about mothers-in-law.

Throughout the evening cheery dances are executed while songs can be in Russian or accented English, either sung or mimed.

For much of the time, aware of the difficulties and dangers that Jewish culture has battled against, one appreciates the fact that the show is done at all; never mind the quality, feel the survival.

The first part ends with a touch of astringency worth all the preceding items combined. A son writes to his distant mother telling her not to worry about the recent pogrom – it was "only a pogromette."

A neighbour was thrown from his attic window and left for dead, but he survived. Of course his bones were broken, but he had tricked them. Sister Esther was stripped and dragged off to the barn, but she is what you might call well: she laughs all day and plays with pebbles like a child, but will get better. Above all, mother is not to cry: it's a feast day.

The second half gives us glimpses of modern life. The Revolution, educated working-class girls who nevertheless bar a rabbi's son from college, a helpful American asking about the five-year plan, optimistic references to Hitler.

Post-war relief is darkened by mention of Babi-Yar; Stalinism brings scapegoats for life's austerities including the identification of Jewish doctors as "killers in white coats."

And the bright modern world of Glasnost blouses and sceptical young people ends with a song and dance routine that wryly accepts the ineradicability of anti-semitism.

Alexander Levenbuk's production sets the uncertain advance of this particular aspect of civilisation on and around an *open truck*, sometimes wheeled forwards, to symbolise the train of "history and destiny" common to all races.

The 16 performers sing, dance and act with a will. If the sketches sometimes plod and the satire seems gentle, we can still appreciate the breakthrough that such a production signifies for such a people at such a time.

Martin Hoyle

Sylvie Guillem to join Royal Ballet

Sylvie Guillem is to join the Royal Ballet for an initial period of three years. She joins as principal guest artist, which will enable her to retain her links with the Paris Opera Ballet.

She was the youngest guest artist ever engaged by the Royal Ballet when, aged 22 in January last year, she danced *Giselle* at Covent Garden with Rudolf Nureyev.

She returned in December that year to dance in Balanchine's *Apollo* and Gsovsky's *Grand Pas Classique*, partnered by Royal Ballet principal Jonathan Cope.

The artist joined the Paris Opera Ballet from their school in 1981 and was promoted to the rank of première danseuse in December 1984, aged 19.

Record attendance for Tate gallerys

During 1988 more than 2m people visited the Tate Gallery's three holdings, the highest figure recorded in the gallery's history.

The Tate, Millbank had slightly fewer visitors than in 1987, but this figure was boosted by the opening of the new Clore Galleries that year.

The Tate Gallery, Liverpool, which opened in May 1988, attracted 490,942 visitors, well above expectation, and The Barbara Hepworth Museum increased its attendances to 18,848 from 17,072 in 1987.

SALEROOM

More on Mappa Mundi

Tomorrow *should* see the next development in the long running saga involving Hereford Cathedral and its wish to cash in the Mappa Mundi, one of the undoubted treasures of the nation. Behind-the-scenes negotiations have come up with a deal, put together by the National Heritage Fund, which establishes a Trust to look after the map, and the other valuables of the cathedral, in a separate building. The Fund is prepared to make a sizeable contribution to finance the scheme if other bodies, notably Hereford City *Council, do their bit.*

The Dean is still procrastinating, weighing up the smaller sum the Cathedral will receive, nearer £3m as against the rough £8m value of the map at auction. Sotheby's, which has played a dubious role as advisers to the Dean, should urge him towards acceptance of this compromise, which eases the Cathedral's financial problems and secures the future of an object of unique value and importance.

It is time the Mappa Mundi row was cleared up because defenders of the national heritage seem likely to have more fights on their hands in the near future. Last week the reviewing Committee on the Export of Works of Art is believed to have delayed a licence to take Lawrence's first portrait of Prinny, dressed as the victor of Waterloo, out of the country. It sold at Sotheby's last November for £600,000, and British galleries will now have a few months in which to raise a matching bid, plus any dealer's mark up. A Gainsborough portrait of Mrs Drummond, which made a record £1.65m at the same sale, is also believed to be under an export threat.

But the Reviewing Committee surprisingly gave the go ahead for the dealer Spinks to sell to the continent the Treasury silver ink stand made by Paul de Lamerie in the 1720s and used by our longest serving Prime Minister, Sir Robert Walpole. It, too, fetched a record price, of £770,000, at Christie's in December. The feeling was that the nation already holds enough silver linked to Walpole: still, it will be an undoubted loss.

In the 20th century one field of artistic endeavour in which the UK leads the world is ceramics, and Bonhams sale of contemporary pots tonight should play to a packed saleroom and attract high prices. As well as work by all the great names – Coper, Rie, Leach – some ceramics have been included by young potters, and priced between £50 and £300.

Last October Christie's South Kensington sold a single 17th century shoe for £14,300. Not surprisingly this opened the floodgates and tomorrow it offers a collection of 50 pairs of shoes dating from the 18th century to the 1920s. The top estimate is £1,800 for a pair of mule slippers of around 1780, but most lots should go for less than £500.

Antony Thorncroft

ARTS GUIDE

February 24-March 2

MUSIC

London

BBC Symphony Orchestra, conducted by Alexander Lazarev with Vladimir Ovchinikov (piano). Rachmaninov, Tchaikovsky. Barbican Hall (Thur) (638 8891).

Paris

Orchestre Colonne conducted by Philippe Entremont, Martin Haselbock (organ). Mozart, Poulenc, Saint-Saens. (Mon) Theatre Des Champs Elysees (47203637).
Royal Philharmonic Orchestra, conducted by Charles Dutoit, Gwyneth Jones, (soprano), Thomas Hampson, (baritone). Mahler (Mon) Châtelet (40282828)
Arrigo Boito's Mefisto in concert version, conducted by Sir John Pritchard with Samuel Ramey in the title role, Alberto Cupido as Faust and Leona Mitchell as Margherita/Elena (Tue, Thur) Paris Opera (47425371).
Akiko Ebi, piano. Chopin, Ravel, Debussy. (Wed) Salle Gaveau(45632030).
Emile Naoumoff, piano. Stravinsky, Tchaikovsky, Scriabine,Rachmaninov, Naoumoff. (Wed) Theatre des Champs Elysees (47203637).
Orchestre National de France conducted by R. Barshai, J.P. Rampal, flute. Mozart, Shostakovitch (Thur) Theatre des Champs Elysees. (47203637).

Vienna

Hagen Quartett. Haydn, Berg, Schumbert. Konzerthaus. (Mon).
Beethoven Trio Wien. Dvorak, Ebenhoh, Mozart, Ravel. Konzerthaus. (Mon).
The Austrian State Radio and Television Orchestra, conducted by Gunther Neuhold. Wellesz, Eroed, Schubert, Webern. Berg. Konzerthaus. (Tues).
Wiener Bachsolisten, conducted by Ernst Wedam. Schubert. Musikverein. (Wed).
Wiener Schubert Trio. Boccherini, Vel, Bischof, Beethoven. Musikverein. (Wed).
Zagreb Philharmoniker, conducted by Walter Hagen-Groll. Mendelssohn. *Konzerthaus. (Wed).*
Oesterreich-heute. Ensemble 20 Jahrhundert, conducted by Peter Burwik. Eisler, Burt, Kont, Seidelmann, Schlee. Konzerthaus. (Wed).

Rome

Berlin Philharmonic soloists playing Mozart, Schubert,Blacher, Reger and Pleyel. Auditorium in via Della Conciliazione. (Fri) (6541044).
Berlin Philharmonic soloists playing Mozart, Dvorzak andSchubert, with Marisa Tanzini (piano) Teatro Olimpico (Piazza Gentile da Fabriano)(Wed) (393304).
London Barbican Consort conducted by Robert Clark playing Handel, Vivaldi, Boyce, Purcell and Haydn. Chiesa di S. Agnese In Agone (Piazza Navona)(Thurs) (687.5952).

New York

Pinchas Zukerman violin recital with Marc Neikrug (piano). Brahms. Carnegie Hall (*Mon*) (247 7800).
Vienna Philharmonic conducted by Herbert von Karajan. Schubert, Strauss. Carnegie Hall (Tue) (247 7800).
New York Philharmonic conducted by Kurt Masur with Elisabeth Leonskaja (piano). Mozart, Liszt, Brahms. Lincoln Center Avery Fisher Hall (Tue) (874 6770).
Anthony De Mare piano recital. Douglas Young, Frederick Rzewski, Conlon Nancarrow, Ives, Aaron Kernis, Meredith *Monk, James Sellars. Kaufmann* Hall (Tue) (427 6000).
New York Philharmonic conducted by Kurt Masur with Philip Myers (horn). Prokofiev, Strauss. Lincoln Center Avery Fisher Hall (Thur) (874 6770).

Washington

National Symphony Orchestra conducted by Sixten Ehrling with Ruth Laredo (piano). Berlioz, Schumann, R. Strauss. Kennedy Center Concert Hall (Tue) (254 3776).
National Symphony Orchestra conducted by Sir Neville Marriner with Elmar Oliveira (violin) and the Oratorio Society of Washington directed by Robert Shafer. Walton, Tippett. Kennedy Center Concert Hall (Thur) (254 3776).

Chicago

Orchestre de Paris conducted by Daniel Barenboim. Debussy programme. Orchestra Hall (Mon) (435 6666).
Chicago Symphony Orchestra *conducted by Christopher Keene.* Haydn, Schreker, Cowell, Milhaud. Orchestra Hall (Thur) (435 6666).

Tokyo

Gunter Hogner (horn). Mozart, Beethoven, Brahms. Tokyo Bunka Kaikan, Recital Hall (Mon) (289 9999).
Group Take Shakuhachi (Japanese bamboo flute) concert. Compositions by Yamamoto Hozan. Ichigaya Luther Centre (Mon) (260 8621).

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telex: 8954871 Fax: 01-236 9764/5 Telephone: 01-248 8000

Monday February 27 1989

Waiting for Mr Baker

PRESIDENT BUSH and his Secretary of State, Mr James Baker, have reacted defensively to suggestions that, by failing to get to grips quickly with developments in the Middle East, they have allowed the Soviet Union to seize the initiative in that region. They are certainly right not to let themselves be hustled into announcing any spectacular initiative for the sake of "keeping up with the Joneses." But they would also do better to avoid being provoked into comments which seem to belittle a Soviet policy that has in recent years been remarkably constructive.

Particularly uncalled-for was Mr Baker's suggestion last Thursday that the Soviet Union should change its approach to the region by, for example, using its influence with Syria. It is nearly two years since Mr Gorbachev told the Syrian President publicly and to his face, at a banquet in Moscow, that "betting on military power to settle the conflict has become completely discredited," that he was "saddened by disunity, frictions and conflicts in the Arab world," and that he welcomed efforts to restore the unity of the Palestine Liberation Organisation.

Soviet encouragement

Since then the PLO has not only been reunited but, with strong Soviet encouragement, has come out clearly for peaceful coexistence between Israel and a Palestinian state, explicitly recognising Israel's right to exist and condemning terrorism, and thereby fulfilling the requirements set by the US for a "substantive dialogue." Syria has not pretended to be overjoyed by these developments, but has so far been less able, or willing, to interfere with them than most people would have predicted. In recent weeks it has even softened its hitherto implacable hostility to Egyptian participation in pan-Arab activities. No doubt a number of events have conspired to persuade President Hafez Assad that this is a time for trimming his sails to the wind, but the knowledge that he could not expect Soviet support if he took a rejectionist line must surely have been important.

Even within the last fortnight Mr Eduard Shevardnadze was trying to use his visit to Damascus to bring about a formal reconciliation between Mr Assad and Mr Yassir Arafat. In that he did not succeed. As Mr Baker should know, for superpowers to "influence" their Middle Eastern clients is not an easy matter. But if either of them can be accused of failing to try at present, it is surely the US.

Absolute refusal

Never has it been clearer than now that the obstacle blocking any further progress in the "peace process" is Israel's absolute refusal to talk the PLO whether inside or outside the framework of an international conference; and never has it been clearer that in taking this line the Israeli Government is out of tune with much of public opinion in the US and even in Israel itself. The Soviet Union has done much to help line up the Arab world and the PLO behind a constructive and reasonable negotiating position.

The time must be coming when the US President should explain to the world, and more especially to the American and Israeli peoples, that he cannot be held responsible for the consequences if Israel persists in refusing any dialogue with the body which Palestinians now unanimously designate as their representative, and which has now clearly stated its willingness – indeed, its eagerness – to make peace.

Before he became Secretary of State, Mr Baker was said to believe the Middle East was an area of major concern to US national security, and one in which a new administration must take the initiative at the beginning of its term. One month into that term, and more than three months after Mr Baker was designated, the senior post dealing with the area in the State Department has not even been filled. Mr Baker's anxiety to gain first-hand knowledge of the leading personalities in the region before he makes a move is understandable. But he must realise that the present relatively hopeful political climate in the region is an opportunity which, if not exploited, is unlikely to last.

A new charter for banking

FEW INDUSTRIES have undergone changes as far-reaching or as rapid as those which have transformed retail banking in the UK in the 1980s. Electronic technology has made possible the provision of banking and money transmission services on a scale previously unthinkable.

The changes have transformed the relationship between the banks and their customers. Twice as many cash withdrawals are now made by automatic teller machines as by cheque. Since 1980 the number of credit cards held by the population has trebled to just under 30m.

Until now there has been little attempt at providing an overall regulatory framework for retail banking in the electronic age and ensuring that the rights of consumers are fully defined and protected.

Last week the committee headed by Professor Robert Jack, which has been studying these issues for the last two years, published its report. Its proposals are detailed and ambitious, calling for three new statutes, including a new law on banking services, and a total of 43 changes in the law.

The proposals include diminishing the use of cheques and their replacement by bank payment orders, tightening the banks' obligation of confidentiality to their customers, greater safeguards against fraud, as well as legislation on electronic funds transfer and trading on computer screens.

Parliamentary time

This is clearly an opportunity to create an up-to-date legislative framework for banking services in Britain which no other country has yet done. However the volume of legislation suggested would make such demands on the time of parliament that the Government is likely to be selective in taking up the Jack proposals. It has asked banks and consumer bodies to submit their views by April and will make its eventual response to the report in the light of them.

Confronted by the wide variety of issues covered in the report, the Government needs to identify its priorities carefully. At the top of the list is the maintenance of a banking system in which bank-customer relations are soundly based.

Despite the enhanced rights which the report proposes to give to the consumer, the banks have few reasons for unhappiness with the main thrust of its proposals; they would curb fraud and lead to an equitable allocation of loss between banks and customers when customers' actions or negligence are a contributory factor.

Current account costs

By proposing an end to the banks' obligation to return all cheques to the branch which issued them, the Jack Report holds out the prospect that the banks may be able to reduce the heavy cost of running current accounts, albeit at a slightly increased risk of signature fraud.

Consumers should welcome the proposals to protect their rights where plastic cards and electronic funds transfer are concerned. At present this area is largely unregulated except by the Consumer Credit Act.

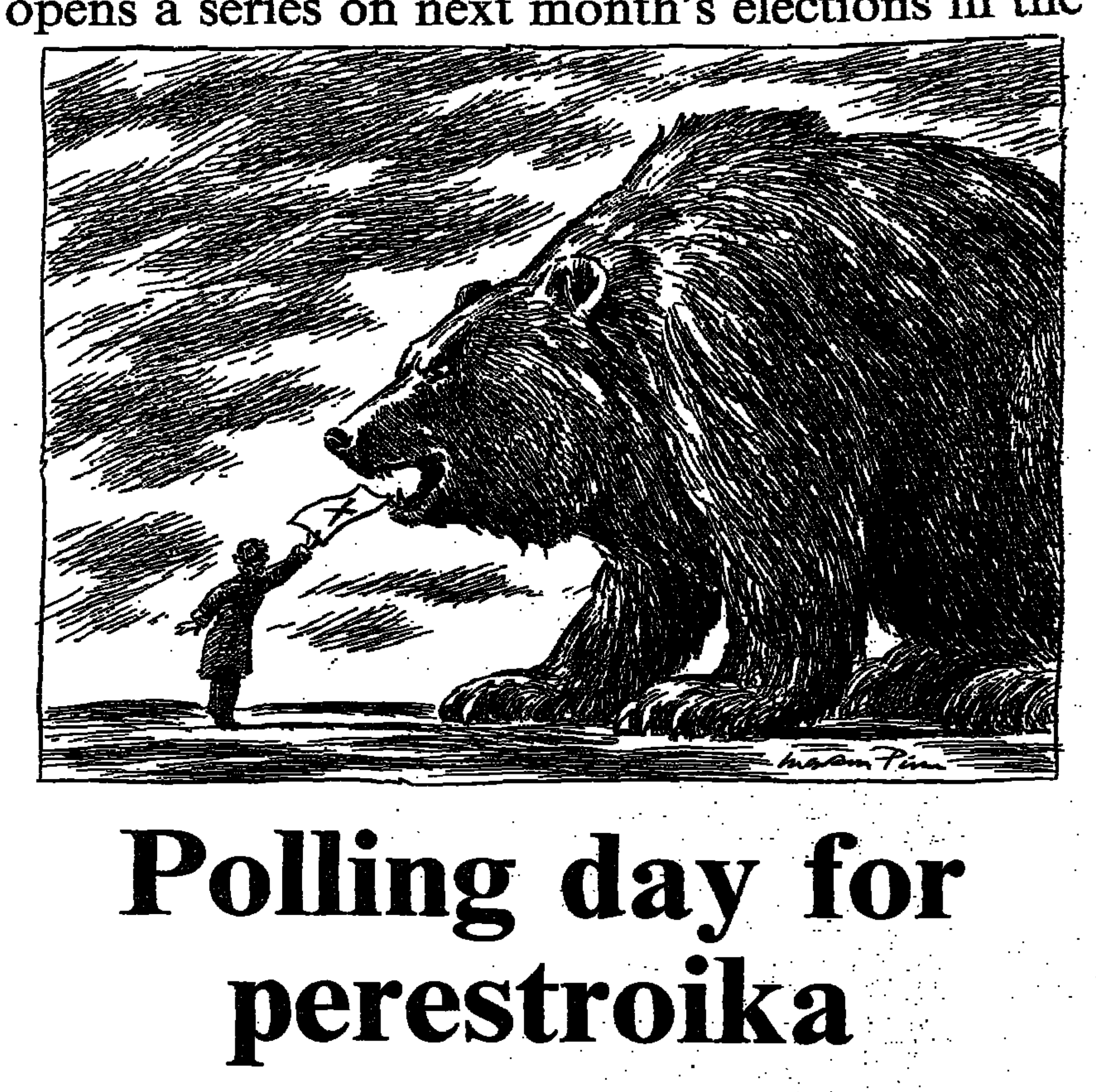
The Jack Report would limit liability for card misuse to £50 and prevent the sending of unsolicited cards and personal identification numbers or the issuing of cards with multiple functions which a customer does not want.

Sensibly, the committee decided that a rigid legal framework for the plastic cards industry might stifle innovation in an area where technology is changing almost by the day. It has instead opted for a piecemeal approach to identifiable problems already affecting consumers.

One of the most urgent areas for new legislation is the whole field of new trading instruments which have been developed since 1882 when the Bills of Exchange Act was passed, in particular screen based transfers which are recorded only in electronic form, and not on paper.

Professor Jack and his colleagues have identified a wide range of possible areas for reform with singular thoroughness. Though banking services generally work well in the UK, their fairness and efficiency, as well as their international competitiveness, will be enhanced if many of these proposals are adopted.

Quentin Peel opens a series on next month's elections in the Soviet Union



Polling day for perestroika

Mikhail Gorbachev, the Soviet leader, calls it a "school of democracy," and admits that the lessons will take a long time to learn. Others call it "democratisation," putting the emphasis on the process rather than the end result.

The most cynical translation of the present Soviet "election" was given this month in the Estonian rural newspaper, Maaleht; its true meaning, the author said, was simply "voting."

Whatever label you give it, the first Soviet attempt to offer anything approaching a choice of candidates for its national legislature is entering the last lap. In just under four weeks – on Easter Sunday – it is polling day for perestroika. It is proving an extraordinary learning process and it is difficult to say who is most confused: electors, candidates, organisers, or outside observers.

For a start, it cannot be compared with a Western election. The fact that the Communist Party is the sole legal party precludes that. Opinion polls on which way the political tide is running would be meaningless.

Political platforms have been published by candidates and by organisations like the Communist Party and its loyal trade unions: they remain bland commitments to good causes, not alternative strategies for development. The only exception seems to be that of Dr Andrei Sakharov, and he may well not be a candidate if the Academy of Sciences fails to nominate him. Everyone is enthusiastically committed to perestroika, at least officially.

President Gorbachev said 10 days ago that a multi-party system would be "rubbish" in the Soviet Union, although his expletive might have been better translated as "meaningless." He and his colleagues have bent over backwards not to be seen to ape any Western model.

"It is obvious that in our system of self-taught democracy, we will make some mistakes," the party newspaper, Pravda, declared disarmingly last week. That is an understatement. The election laws are ambiguous, the procedures are wide open to abuse, and the voting system is decidedly illogical. There is a real possibility that many constituency elections on March 26 will fail to produce a winner with the required absolute majority. The legal drafting was done in a hurry last autumn and the penalties are becoming apparent.

The increasingly outspoken Soviet press has reported many instances of local authorities seeking to control the end result, by limiting the nomination of candidates, refusing to sanction election meetings, or simply packing the meetings with party faithful.

"The experience of the present election campaign has shown that the statute of the law on elections on meetings . . . needs to be elaborated, particularly in so far as procedures are concerned," Mr Valery Lashkov, head of organisational instruction in the Central Election Commission, admits.

In spite of such criticism, the whole process is remarkable for the Soviet Union. Granted the confusion, and obvious attempts to fix the results in favour of loyal party people, something approaching a democratic debate has been taking place in fits and starts across the country.

"Of course some shortcomings have been noted." Mr Gorbachev admitted last week in Kiev where a particularly large proportion of the party leadership is standing unopposed. But he insisted: "It is already clear that we are not dealing with a merely formal procedure, but with genuine elections of people's representatives to the highest organs of power. This is an enormous step forward in comparison with the practice of previous years."

The aim is to elect 2,250 people's deputies to the Congress of Deputies, a new super-parliament set up by the constitutional reforms approved last November. They in turn will elect from their number a 544-strong standing legislature, a bicameral Supreme Soviet, which is supposed to sit for three or four months, twice a year.

The key body will be the Supreme Soviet, hitherto no more than a rubber stamp for the decisions of the Kremlin, meeting for a couple of two-day sessions a year to approve all legislation by acclamation. Henceforth, it is supposed to have real debates, propose real amendments, and exercise a controlling influence on the power of the party leadership.

Mr Gorbachev insists that his reforms are intended to give back meaning to the Leninist slogan "All power to the Soviets." But the party will obviously remain the paramount influence: more than 80 per cent of the candidates first nominated were party members.

There are three slates of deputies in the new Congress: 750 will come from territorial constituencies with equal numbers of electors, 750 from national-territorial seats divided equally between the 15 republics regardless of population and 750 from a variety of public organisations, such as trade unions, the Academy of Sciences, the Soviet Peace Committee, and the like.

Already it is clear that the least democratically selected have come from the public organisations. They have made an initial selection and only 880 candidates have been nominated and registered for the 750 seats. The final selection will take place over the next four weeks at plenary meetings of the organisations, but the lack of choice has caused furious rows.

It all began when the Central Committee of the Communist Party nominated exactly 100 names for the 100 seats it was allocated – and showed the way for all the rest. The Komsomol – the Communist Youth League – publicly apologised for submitting more names than it would have seats.

As for the Academy of Sciences, it only put up 23 names for 25 seats, and failed to put forward any of the most popular supporters of perestroika, such as Dr Andrei Sakharov, Academician Roald Sagdeyev, Academician Tatyana Zaslavskaya, and Academician Abel Aganbegyan. More than 2,000 scientists demonstrated in the streets of Moscow and now they are lobbying to deny the candidates enough votes to be confirmed at the Academy's plenum next month.

The same picture of confusion and conflict has emerged from many parts of the country over the campaigns for constituency candidates.

On the one hand, in the Ukraine, most of the top party leaders have found themselves the Soviet equivalent of "rotten boroughs" to represent unopposed, well away from the capital Kiev, where the only real contests look like taking place.

Protests and demonstrations have been reported from Yaroslavl, where environmentalists claimed their candidate had been excluded because of a rigged vote count. In Moscow, Mr Vitaly Korotich, the outspoken editor of Ogonyok magazine, walked out of his selection meeting in fury when the chairman refused to agree to put forward all 11 names which had been nominated.

On the other hand, many of the selection meetings, at which nominated candidates have to get 50 per cent support to get on the ballot paper, have produced unpredictable results. In the Lenin district of Moscow, for example, the obvious party candidate – director of a large defence factory – was voted down, as was the poet, Yevgeny Yevtushenko: the former was questioned on his social contribution, the latter on his love life. In the event two strong reformist candidates were the only ones chosen from a list of 11.

Another extraordinary debate took place at the Red October Palace of Culture in Zelinograd, outside the capital. For almost 12 hours the selected voters argued over a list of five names. Five times, they sacked the chairman of the meeting, until finally they persuaded a sixth to allow all five to go forward on to the ballot paper. The only common thread through the meetings seems to have been their unpredictability.

The one area where the elections look anything like the multi-party Western variety is in the Baltic republic of Lithuania, where the Communist Party leadership is being challenged by candidates openly sponsored by Sajudis, the nationalist movement founded last November.

Mr Algirdas Brazauskas, the republic's party leader, faces the strongest challenge of all from Mr Arvydas Juozaitis, a philosophy lecturer who is one of the most outspoken young leaders of Sajudis. The rivalry has resulted in a sharp deterioration in relations between Sajudis and the Communist Party, once working in tandem, with accusations that Sajudis is increasingly harbouring "extremists." However Mr Juozaitis says he may yet pull out of the election, for fear of precipitating a political crisis if he were to defeat the party leader.

In neighbouring Latvia, the party leader, Mr Jan Vagris, is also facing a clear alternative challenge, with two open advocates of Latvian independence on the same slate.

As for Estonia, the most rebellious of the three Baltic republics, there seems to be far less enthusiasm about the coming campaign. "People are simply not very excited about electing people for the Moscow Supreme Soviet," says Tarmu Tammerk, editor of the English-language newspaper Homeland.

The chief general criticism of the system so far has been levelled at the stage just completed: the series of district election meetings summoned to vet the lists of candidates wherever there were more than two. In Estonia, the government simply decided not to hold any: all nominated candidates were automatically registered.

Half the members of the public attending these meetings were selected by the district election commission, and the other half by the candidates themselves, giving a great opportunity for the local bureaucracy to pack the meetings with supporters. The number of genuinely independent candidates slipping through the system is likely to be small.

Indeed, even at the nominating stage, the proportion of Communist Party members was actually higher, and the proportion of ordinary "workers and peasants" lower, than under the old quota system.

The district meetings are likely to have whittled the total list down from 7,531 candidates nominated – an average of five for each of the 1,500 constituencies – to perhaps no more than 3,000. Final figures are yet to be published.

Candidates have organised campaign staffs and set up their headquarters. They enjoy free travel in their constituencies and immunity from any prosecution for the duration of the campaign. Already the election commission has ordered that no candidate may use his own finances for his campaign, to ensure strict fairness.

"We cannot do as the bourgeois do," says Viktor Nechayev, representative of the chief political department of the Soviet Army and Navy. "Where will the funds go? Maybe to bribe voters?"

The costs to the state are likely to be considerable. In Leningrad, the entire cost of the last, uncontested elections in 1984 was Roubles 100,000 (£91,819). This time, Leningrad city council reckons it could cost that much in each of the 15 city constituencies. The learning process comes expensive.

The final results only have to be published 10 days after the poll: another reason why sceptics believe it may still be possible to rig it. Yet few observers expect a really startling outcome now: a respectable minority of real reformers will get elected. Several key figures are in the central committee's "golden 100" list.

So far, few candidates seem very enthusiastic about the prospect of becoming the sort of full-time politicians a standing parliament would require – except for the party officials. They are likely to end up dominating the future Supreme Soviet.

On the other hand, it is the process of the election, rather than the result, which probably matters most at this stage of political reform. "Even where the good man loses, it will have an effect," according to one Western political observer. "People will end up in the Supreme Soviet knowing they will have to go through the whole process again next time. They will have to answer for their behaviour in a way they never had to before."

Further articles by FT correspondents on the elections will appear during the run-up to polling.

OBSERVER

Owen stays alone

■ The trouble with David Owen is that he has a streak of arrogance that he will never quite abandon. It stems at least partly from his having been made Foreign Secretary when he was too young.

Owen was 37 when he took over at the Foreign Office from the late Tony Crosland. The Labour Government was in trouble domestically and the party was torn internally. But Owen had been raised several steps above his contemporaries and there was plenty for him to do on the international scene. That made the return to the humdrum life of opposition politics all the harder to take when it came.

One doubts if he has got used to it even yet. It is not that he does not work hard; he does. It is just that he has a tendency to feel himself head and shoulders above most of those around him. Remember that he was challenging the now Lord Jenkins for the leadership of the Social Democratic Party very shortly after it was formed: many of the subsequent troubles of the party arose from the way its original leaders fell out among themselves – more or less, Owen versus the rest.

After the 1987 general election Owen could have prevented the break-up of the Alliance or could probably have had the leadership of a new merged party. He chose to stand apart. It was not that he particularly disliked David Steel, the leader of the Liberals; the two men just had different temperaments and Owen was not prepared to live with fudge.

When Owen talks of Neil Kinnock, the Labour leader, he tends to point his finger towards his head and say: "He hasn't got it here." No doubt he would say the same about Paddy Ashdown, the leader of the SLD. And in both cases he would be right. Neither Kinnock nor Ashdown has Owen's intellectual grasp.

Owen keeps a check list of what Kinnock, in particular, has to do before Owen will give his approval. It includes accepting British nuclear defence forces and proportional representation. Possibly Kinnock will come round even on those scores. Yet the chances of Owen joining a party of which he is not leader, or of trimming enough to become leader of a wider grouping, seem to me utterly remote.

Not worth it

■ The Treasury will be glad to know that the Foreign and Commonwealth Office has been catching up with its accounts. The FCO has sent us a bill for telex calls made by our Africa Editor during the Foreign Secretary's trip to Mozambique in July 1986. The bill is for 3547.16 meticais at 60.241 to the £ and comes out at £58.88. "I apologise," writes the lady at the Foreign Office, "for the lengthy delay in requesting payment, but it has taken some time to obtain the bill and identify responsibility for the calls." At least her letter is marked "unclassified."

Careless banks

■ Readers often write to us – for which many thanks – about misprints in other papers. There was one in a national newspaper the other day advertising an art show: "From Freud to Money," and Official Airlines Guides are currently claiming credit for what they call their "consistant accuracy."

The reason why we seldom draw attention to them is that we make too many of our own

to draw any pleasure from other people's. Indeed quite a lot of Observer's correspondence is about misprints in the FT, sometimes even in this space.

But there is one subject which readers have been writing to us about recently which suggests a general irritation. It is the habit of banks to get their customers wrong. One reader writes that although his wife has been banking with the Midland since 1975, she has just been made a Griffin Saver – a special category for children – and will receive the Midland Number One magazine on her 11th birthday.

Another reader has passed on to us a £500 index-linked National Savings Certificate. He says that he opened it by mistake because it was in an envelope firmly glued to another that was addressed to him, and wants us to take up the business of excessive glue with National Savings.

In the light of these complaints, and many more like them, I was surprised last week when Professor Robert Jack, the chairman of the committee on the reform of banking practice, said that he had found that British banks were rather popular. All one can say is that there is a remarkably high level of tolerance.

Irish prize

■ Roy Foster, the historian who received accolades from all over the place for his recent book, Modern Ireland 1600-1972, has not won the Christopher Ewart-Biggs Memorial Prize. The reason is very simple: he is chairman of the panel of judges, and therefore ineligible.

The prize is given in honour of the British Ambassador to Ireland who was killed by the IRA. Ewart-Biggs's widow, Jane, lives on very actively as Labour spokesman in the House of Lords.

This year the prize money has been doubled to £4,000. It goes to any writer whose work has promoted peace in Ireland, the strengthening of links between Ireland and the UK, or closer co-operation between the partners of the European Community.

Two journalists have been shortlisted for their Irish reporting: Mary Holland of the Irish Times and The Observer, and David McKittrick of The Independent. Also shortlisted are Thomas Flanagan for Tenants of Time, Brian Friel for Making History, and Tom Paulin for Fivemiletown. Michael Foot will present the award on March 6.

Meanwhile, the 40-year-old Foster has been given a personal Chair in modern British history at Birkbeck College, London.

Translations

■ Here are some useful guides: "Oui, en principe," in French means "no." "Medium dry" on a bottle of wine means "sweet" and "Bruno does us proud" means "he lasted nearly five rounds."

Stefan Wagstyl reports on Japanese retailing, increasingly the focus of trade disputes

Elusive key to Japan's closed shop

Mrs Noriko Hashimoto's corner shop, with its paraffin stove and wooden shutters, is an unlikely site for a trade war. But it is increasingly probable that the next trade battle between Japan and the West will be fought over the goods Mrs Hashimoto has on her shelves.

Following the publication this month of yet another record Japanese monthly trade surplus, Western trade negotiators are casting around for new sticks with which to beat the Japanese. Top of their list is Japan's multi-layered retail distribution system – often condemned in the West as an impenetrable maze perfect for keeping imports out of the 1.6m tiny shops, including Mrs Hashimoto's in Tomigaya, a suburb of Tokyo.

But persuading the Japanese Government to cut swathes through a system which has evolved over hundreds of years will not be easy and may prove fruitless, since if doors are opened to foreign companies, they will also be opened for Japanese rivals. "The conflict between the US and Japan will be tougher in 1989 than last year," warns Mr Yoh Kurosawa, deputy president of the Industrial Bank of Japan.

It is the distribution system which is being singled out for attack after Japan's main trading partners – the US and the European Community – have tried almost every other way of bringing down the Japanese trade surplus.

A 60 per cent appreciation in the yen since 1985 has slowed down export growth but failed to halt it. Export controls and anti-dumping actions have had an effect on specific companies at specific times, but overall they have failed to force Japanese exporters to pull back. Exports last year were $265bn (£150bn), 55 per cent more than in 1984.

On the import side, the successive abolition of formal Japanese trade barriers has brought some successes – notably almost $1bn a year of cigarette exports for the US. Imports across the board are growing rapidly – but from such a low starting point that they barely offset the increases in exports. Moreover, in recent months the pace of import growth has slowed, to the increasing annoyance of Western countries.

Despite the removal of most formal import barriers, Japanese markets remain difficult to penetrate. Imports of manufactured goods as a percentage of gross national product amount to only 3 per cent in Japan, much lower than the levels in other industrialised countries.

Western trade negotiators argue that the existence of so many small shops in Japan is a trade barrier – on the grounds that it is easier for an importer to sell to a single large customer than dozens of small ones. Japanese laws, they point out, protect small shops by severely limiting the opening of large stores, including supermarkets.

"We have reached the point where the barriers are no longer outside Japan but inside the Japanese system itself. We must target specific areas of the distribution system," says one Western diplomat in Tokyo.

On the face of it, there should be plenty of scope. Japan has more shopkeepers than the US, where there are twice as many people. Small stores, employing less than five people, account for 57 per cent of retail sales, against 3 per cent in the US and 5 per cent in the UK, according to Daiei, a leading supermarket company.

These shopkeepers are served by so many wholesalers that, on average, goods have to pass through twice as many hands before they reach the customer as they do in the US. Japanese consumers are becoming aware of the cost of this system because, as they travel abroad, they see for themselves that retail prices in Japan are about 50 per cent higher than in the US.

This puts retail reform on the domestic as well as the international agenda. Mr Noboru Takeshita, the Prime Minister, promised at last year's Western summit in Toronto, to look into the matter. Various government agencies are expected to present a report on possible changes by May – in time for Mr Takeshita to put some proposals before this year's summit in Paris.

Unfortunately he is unlikely to move fast enough to placate foreign critics. Geography limits the Government's freedom of action. There is little room in Japan's crowded cities for big stores or for roads wide enough for big delivery lorries. Japanese consumers like the convenience of local shops where they can buy food as often as three times a day.

Small shops are the life and soul of local communities. More importantly, after the farmers, shopkeepers are Japan's most entrenched conservative lobby with supporters in the highest ranks of the ruling Liberal Democratic Party. Together with their families they account for some 20m votes, most of them cast for the LDP. Especially in urban areas, where it is weakest, the LDP relies on retailers to canvass support at election time. Mr Hiroshi Mitamura, chairman of the National Shopkeepers Promotion Association, says: "The big stores stuff the politicians with money but we have the power of 20m votes."

Because of this, small shopkeepers are protected by laws, which allow them to hold up the opening of big stores for 10 years or more. Mr Isao Nakauchi, chairman of Daiei, says that to open a new supermarket the company has to submit 73 applications for 26 permits under 12 different laws.

The proliferation of small shops also gives manufacturing companies tremendous power in the market. Opportunities for anti-competitive tactics abound. For example, in consumer electronics, Japanese manufacturers control vast families of small shops, which together account for 45 per cent of sales. Matsushita alone has 25,000 stores, most of them family-owned, which rely on Matsushita for 70-100 per cent of their stock. Goods are supplied through Matsushita-controlled wholesalers.

The company says a retailer cannot actually be stopped from selling imported goods – but in practice few do. Moreover, even when they are dealing with independent wholesalers and retailers, manufacturers have various ways of tempting shopkeepers into cosy relationships. For example, sale-or-return terms are common in Japan, in effect making the retailer reliant on his suppliers' credit. The manufacturers play their part in maintaining high retail margins by printing artificially high prices on boxes.

But the old order is slowly crumbling. Some 140,000 small stores closed between 1982 and 1985 – the first decline recorded by the Ministry for International Trade and Industry since the Second World War. Around 200,000 more have shut down since.

Partly, the small shopkeepers' profit margins have been squeezed to the point where they cannot afford to carry on. As small stores decline in numbers, the large stores grow. Despite the legal difficulties, large store operators last year increased their floor space by 5 per cent – against 2 per cent in the early 1980s.

The most dynamic groups are not the traditional high-margin luxury department stores – such as Takashimaya or Mitsukoshi – which have co-existed with small family-owned stores since before the war. The threat comes from the supermarket and chain store groups which first became significant in the 1960s including Daiei, Nichii, and Ito-Yokado, which runs the 7-eleven convenience stores in Japan. Small shopkeepers particularly resent 7-eleven because it opens new stores by recruiting renegade store owners as franchise-holders.

If they are to force the Japanese Government to speed up change, Western trade negotiators will have to identify practices aimed specifically at keeping out imports. This may prove very difficult because most of the anti-competitive devices are designed to keep out potential Japanese rivals as well as foreigners.

Mr Masami Atarashi, president of the Japanese affiliate of Johnson & Johnson, the US toiletries and drugs group, says: "It is just as difficult for Japanese companies as for foreign ones to break in." For example, in the 1960s, Kao, a leading cosmetics group, found the restrictive agreements such an obstacle that it spent 10 years building its own distribution system, based on 24 exclusive wholesale companies.

Moreover, there is no guarantee that foreign companies will necessarily benefit if anti-competitive practices are outlawed. It is hard to imagine, for example, that Matsushita will be any less powerful in a reformed market than it is now. It already has first-rate contacts with the large stores as well as its family of shops. And if it should falter, Sony, for example, will surely be as well placed as Philips or Samsung to take advantage.

Even when it comes to importing, Japanese companies have shown themselves a match for foreign groups. The electronics companies have grown adept at importing radios, clocks and other things from their cheap-labour factories in South East Asia. The biggest importer of cars from the US is Honda. Also, the supposed preference of big stores for foreign goods can be exaggerated. Daiei, often cited as a leader in promoting imports, has indeed increased sales of foreign goods by 41 per cent since 1985. But they still formed less than 11 per cent of last year's sales.

In the view of many long-established Western companies in Japan, there is no substitute for learning to cope with the Japanese system. Mr Atarashi says: "The key to success would seem to lie in a corporation's determination to become a genuine insider . . . without losing its own identity."

Different foreign companies have done this in different ways. Coca-Cola has built its own distribution system to win a 60 per cent market share in soft drinks. Schick, the safety razor manufacturer, has secured a 70 per cent market share with the help of a distribution agreement with Hattori Seiko, the watch and calculator manufacturer. BMW, the West German car maker, transformed its fortunes by dropping its local agent and setting up its own dealer network.

One thing these companies have in common is size. The Japanese market requires a bigger investment over a longer period than many companies imagine. A Western diplomat says: "Big companies can do it. Small companies give up." Mr Atarashi says: "Never forget this is the most competitive market in the world."

Glyn Genin

A shopping street in Tokyo: Japan has more shopkeepers than the US, where there are twice as many people

LOMBARD

The case against fiscal activism

By Samuel Brittan

WHY SHOULD not the ThatcherGovernment reduce taxes in a recession to stimulate spending and increase taxes in a boom to curb expenditure, irrespective of whether the public sector is already running a large surplus or not? This, after all, is what many of us were brought up to believe.

We might observe in passing that the symmetry is often a false one. For the would-be active fiscal regulators usually advocate increased public spending in a recession and a higher tax burden in a boom – advice which would lead to an ever-increasing role for government.

Let us, however, forget the sub-text and take the fiscal activists at their face value. Notice, too, that I am calling them fiscal activists. They do not have to be fine-tuners in the sense of advocating precise and frequent adjustments. The main point is that they want to use discretionary fiscal policy to manage demand without being constrained by whether or not the Budget is balanced either now or over the cycle as a whole. (They should be distinguished from the advocates of automatic feedback rules whose research is discussed in February's London Business School Economic Outlook).

We need to rehearse what is wrong with the arguments for fiscal activism. No single one of the objections which follow is conclusive. But they are interrelated and mutually reinforcing and together amount to a compelling case against fiscal activism. No apology is made for putting the arguments in terms of risks and possibilities rather than rival dogmatisms.

The first and oldest criticism is that because of lack of knowledge and political and administrative delays, the eventual effect is often destabilising – the opposite of what is intended. For instance, if Nigel Lawson were to raise the tax burden in this late stage of the cycle, by the time his measures had their full effect, he would more than likely be aggravating a downturn rather than moderating a boom. This would be overkill with a vengeance.

By contrast monetary policy can be changed more quickly via short-term interest rates and its effects come through soon in frequently calculated variables such as the exchange rate, house prices, and other asset prices.

Note too that on the fiscal front the lags which cause destabilisation are likely to be less with the automatic adjustments which cause Budget surpluses to swell in booms or decline in recessions (the so-called "built-in stabilisers") than with the discretionary changes the activists like.

The second argument against fiscal activism is that, even if timing were perfect, it still might not work in the way intended. Consumers will often ride out short-term fluctuations in income caused by tax variations and base their spending decisions on a long-term or "permanent" view of their income.

A third and more subtle reason is that fiscal and monetary policy have different roles to play, especially in the long run and are not merely alternative ways of managing demand. The true long-term role of fiscal policy is the mundane one of ensuring government solvency, avoiding a debt trap and containing the interest burden on the National Debt. By contrast, inflation is a monetary phenomenon influenced by monetary policy, even though we lack the precise relationships the technical monetarists hoped to find.

Fourthly, and ultimately most important of all, the view that the Budget should normally be at least roughly balanced, reflects the non-articulated experience of many generations and is likely to embody more knowledge than the ever-changing econometric relationships on which the fiscal activists wish to rely.

There are sometimes good grounds for departing from balance – automatically in a normal business cycle and perhaps by more in a severe recession or boom. But to suggest that the size of the Budget surplus or deficit should be completely ignored and taxes raised or lowered by any number of tens of billions according to some forecaster's temporary vision is a triumph of technocratic hope over postwar experience.

LETTERS

Shackled by CGT

From Mr J. Charles Maisey.

Sir, Your leader "Freedom for UK Savers" (February 22) seeks a laudable objective: a more level playing field in respect of the treatment of different forms of savings. However, in advocating the enhancement of PEPs (personal equity plans), and converting them to PIPs (personal investment plans), an opportunity is being lost.

The big attraction of private residential investment and pension fund investment is the fact that capital gains enjoy exemption from taxation. This privilege has long attached to British Government Securities (gilts), and in recent years has been extended to other UK fixed income stocks.

But the entrepreneurial or enterprise spirit – that is, equity investment – still labours under Capital Gains Tax (CGT), despite indexation for inflation (which has really only recognised the "civil servant" aspect of the tax). The Business Expansion Scheme (BES) recognises this; it exempts gains in investments held for a qualifying period.

Would it not be more desirable to abolish a tax, rather than create yet another formal savings route which, in some respects, merely institutionalises savings yet again? Abolishing CGT for individuals would immediately level the playing field between residential property investment, pensions, BES, gilts and PEPs, and would immediately discourage the export of capital and the creation of offshore trusts.

J. Charles Maisey,
PO Box 21, Regis House,
43-45 King William Street, EC4.

Hobson's cheese

From Mr J.D. Sutherland.

Sir, When Kenneth Clarke, the Health Minister, says that it is much more dangerous to cross the road than to eat soft cheese, he cleverly fails to add that, while most people have to cross the road from time to time, they do not have to eat soft cheese.

J.D. Sutherland,
41 Westella Way,
Kirkella,
Hull, Humberside

The compensation conundrum

From Mr Henry Witcomb.

Sir, A.H. Hermann points out (February 23) that the Citizens' Compensation Bill, to be debated in the Commons this week, tackles only one aspect of many problems encountered when seeking compensation.

This is true. Action is also needed to give greater access to justice; to increase, through specialisation, the standard of advice received; to cut the delays in the system; and to make it easy to prove negligence. We believe that in dealing with the low levels of compensation we can remedy one of these problems and bring much needed attention to an issue long neglected.

In one respect, however, the article is incorrect. The Compensation Advisory Board, which would lay down guidelines for the courts to use in relation to compensation levels, would not be composed mainly of lawyers.

We have aimed to achieve a balance of interests. Two would be medically qualified, two more would represent the legal profession, and four would be appointed from organisations which deal with injured and disabled people. There are also three spare places for, say, social workers or industrial safety experts. The board would be chaired by an English or Scottish judge.

We hope thus to achieve a compromise between a judge sitting alone and the uncertainties which would arise if juries were reintroduced into personal injury trials. We see it as a simple, effective reform, allowing an element of public opinion into the process without depriving judges of their discretion to decide a case.

Henry Witcomb,
Citizen Action Compensation Campaign,
3 Endsleigh Street, WC1

Working for women at work

From Mr John Edmonds.

Sir, John Gapper's claim (February 20) that most trade unions have not come to terms with changes in the working population does not apply to the General, Municipal, Boilermakers and Allied Trades Union.

In the early 1980s we identified the accelerating shift of employment into the service sector, and adjusted our policies. We developed a programme which not only includes implementation of our policy of equal pay, but also broadens the bargaining agenda to include flexible working hours, parental leave and cervical cancer screening.

Our publication, The Changing Labour Market, analyses demographic trends and proposes a new bargaining agenda with emphasis on introduction of flexible working hours.

These initiatives by the GMB contrast with government policy. Government hypocrisy is revealed in the recent consultation paper which justifies the abolition of wages councils on the grounds that "most workers in the wages council trades are part timers, many of them contributing a second income to the home."

Government ministers may blather on about equal opportunities, but the real work is being done by trade unions like the GMB.

John Edmonds,
General Secretary, GMB,
Thorne House,
Ruxley Ridge, Claygate,
Esher, Surrey.

Australia deals with its economy

From Mr Dick Howard.

Sir, I read Mr Peter Frankel's letter (February 22) on Australia's economic position with interest, but found his analysis and recommendations somewhat bizarre.

A simpler explanation for Australia's plight is that the economy has just been growing too fast. Deregulation, particularly in the financial sector, and an over-relaxation of monetary policy after the crash, both contributed to a boom in construction and business investment. Interestingly, retail sales have hardly risen at all in real terms over the past 12 months.

The correct response for an economy which is growing too fast is to tighten economic policy. This the authorities have done. 90-day bank bills have risen from 10.5 per cent in March 1988 to just below 17 per cent now. The budget surplus in 1987-88 was A$2.2bn; we expect it to be A$6.5bn in 1988-89. Real wages have fallen in three of the past four years.

It is true that Australia's high interest rates have sucked in speculative capital. As the Bank of England might have put it: the monetary policy mix was far from ideal. However, the recent 8 per cent fall in the currency and 50 basis point rise in short term interest rates has helped to correct that.

Mr Frankel suggested four remedies, all of which have their flaws:

- A withholding tax would not only run counter to the Australian Government's deregulatory policies, but could cause a disastrous loss of confidence in Australia among offshore investors (who will be vital, soon, in financing Australia's external deficit).
- Temporary import duties will simply store up future consumption for when they are removed. If they are not removed, then clearly they are not temporary, and would invite retaliation.
- Declaring a national export emergency misses the point. Australia's export performance over the last six months has suffered because the economy simply cannot produce its staple exports fast enough (in 1987 exporters were selling out of stocks); and because of labour disputes at the docks (it is difficult to see a Labour Government sending the troops in).
- Lower interest rates would surely weaken the Australian dollar even more, thus building up inflationary pressures further, while a moratorium on pay increases would, like temporary import duties, have the effect of storing up troubles for another day.

I am not trying to suggest that Australia does not have its problems. Clearly it does. I would say, however, that the authorities' actions have been along the right lines.

The crucial factor over the next few months is whether the alliance between the Labour Government and the unions can continue to hold wage increases below the rate of inflation for the fifth year running.

Dick Howard,
ANZ McCaughan,
65 Holborn Viaduct, EC1

FINANCIAL TIMES
Monday February 27 1989

Janet Bush on Wall Street

A philosophy for buy-outs after RJR

WHEN Peter Goodson told his young daughter that he was leaving his highly successful mergers and acquisitions job at Kidder Peabody to join buy-out specialist Clayton & Dubilier, she was worried about the future.

"How many people are there in your new office, Dad?" "Oh, about seven or eight." "And how many people are you in charge of?" she asked. "None," he replied at which point the little girl put her arms around him in consolation. She needn't worry.

Clayton & Dubilier is the buy-out firm whose philosophy may serve it best in the post-RJR Nabisco world.

Congressmen want hard facts about whether buy-outs are good for the future of corporate America and its employees and investors want to know that they are not being forgotten in the investment banking stampede to earn fees.

Clayton & Dubilier, which since its inception in 1978 has acquired 14 companies with an aggregate cost of more than $4.2bn including Uniroyal/Goodrich and The Kendall Company, compares favourably on both counts.

Figures provided to Congressional leaders show that the companies that Clayton & Dubilier has helped turn around achieved an average 72 per cent jump in productivity in the first two or three years of ownership and an average rise in operating profits of more than 50 per cent.

Mr Goodson said that these gains had been achieved without cuts in research and development, capital spending and employment – all areas which critics say suffer in buy-outs.

As for investors, figures compiled by an independent source, show that Clayton & Dubilier has achieved a composite annual cash return of 102.9 per cent over the full economic cycle of the last 10 years including the 1982/83 recession.

This compares favourably with other funds. For example, documents available show that Merrill Lynch achieved 78 per cent over five years, Gibbons Green 62 per cent over 11 years and Kohlberg, Kravis, Roberts 59.8 per cent over 13 years.

Those figures include assumptions on the values of companies which they have not yet sold and realised gains on sales, whereas Clayton & Dubilier's more than 100 per cent return is cash gains actually realised by investors, according to the study.

A single fact distinguishes Clayton & Dubilier from other buy-out specialists – its commitment actively to helping managements turn around their companies and even putting in its own partners to oversee restructuring efforts.

The skill of most buy-out firms such as KKR and Gibbons Green is in timing a deal and pricing it. At Clayton & Dubilier, the only relevant question is whether the company has untapped potential which could be brought out.

"Timing philosophies are diametrically opposed to ours but both have real strengths and weaknesses," says Mr Goodson, who has advised virtually leader in management buy-outs from his M&A days at Kidder.

Mr Goodson believes the time is propitious for a company like Clayton & Dubilier. It helps that the backlash against the Ross Johnson/RJR Nabisco complex has not touched it like some others because of its proven interest in companies *after* they have been acquired.

There are three major opportunities. One is the 1992 project in Europe where the company is extremely keen to establish a presence. Mr Goodson believes the opportunities for management magic are particularly exciting in Britain, first, because of its entrepreneurial revival, and second because he identifies many companies which could be expanded Europe-wide.

Japan is another fruitful area. Mr Goodson and his colleagues are in the process of raising money from Japanese investors who are highly interested in the company's emphasis on imaginative managment as opposed to any finely-tuned financial engineering and use of hostile tactics.

Its philosophy seems to be winning fans all around. Clayton & Dubilier just raised $700m for a $1bn buy-out fund in little over a month with no difficulty while other investment banks have found raising money hard going.

The third major area is the US. "I really feel, in the next five years anyway, the critical factor of success is going to be the ability to buy underperforming businesses and make them better," he said.

Inquiry focuses on 747 door latch

By Roderick Oram in New York

INVESTIGATORS were yesterday focusing on the role a cargo door latch might have played when a large hole was ripped in the side of a United Airlines Boeing 747 near Hawaii last Friday.

US regulators ordered modifications to the latches on about 200 similar Boeing 747s last summer, but gave airlines up to two years to complete the work.

The Federal Aviation Administration (FAA), the agency that ordered the changes, said it would wait for a report on the incident before deciding whether to speed up modifications.

Nine people were killed when they were sucked out through the hole in the United aircraft 10 minutes after it left Honolulu. Although the two starboard engines ingested debris, the pilot was able to land the aircraft safely with the remaining 327 passengers and 15 crew. The cargo door and a large area of fuselage were missing.

The FAA confirmed that the United aircraft, built in 1970, had passed the tests it ordered last summer. It had not yet been modified but it had been still within the timetable for changes.

The cargo doors of 747s came under scrutiny after one partially opened on a Pan Am flight in March 1987. After an investigation, the FAA issued a directive, effective last July 1, ordering tests and the strengthening of cargo door latches on early 747s.

The changes had to be made within 18 to 24 months depending on the type of latch. Some aircraft had latches with no strengthening plates and until steel plates are added, ground crews have to check these locks manually before each flight to ensure the doors are closed properly. Other aircraft already have aluminium plates but these must be changed to steel. The timetable for this modification was longer and the doors could be closed without a visual before each flight.

The United 747 that lost its door on Friday had an aluminium latch and was awaiting the fitting of steel plates.

The National Transportation Safety Board team, together with three FAA officials, are in Honolulu to begin their work. The aircraft's voice and flight data recorders were removed and will be sent back to Washington for analysis.

Lynton McLain in London adds, British Airways has modified the locking assemblies on the cargo doors of 37 of its 40 Boeing 747-100 and 747-200 series airliners, in line with a directive issued by the Civil Aviation Authority in October 1987. The airline was given until August 31 this year to make the changes which, like those in the US, involve adding a steel plate to the locking assemblies at the base of both cargo doors on the jumbo jets.

Majority on Delors Committee moves nearer to consensus

By John Wyles in London

EUROPEAN monetary officials believe the Delors Committee of central bank governors, which is considering how to achieve economic and monetary union in the European Community, can reach consensus with probably only the UK dissenting from some of the main conclusions.

The governors are believed to have concluded that steps towards greater economic integration and towards monetary union can be taken in parallel, rather than giving precedence to the former over the latter.

Only two further meetings are planned for the 17-strong committee which was set up after last summer's EC summit in Hanover to study steps towards economic and monetary union.

The committee's report is due for completion in early May.

Having agreed that a single currency area – which could be based on different currencies operating at fixed rates – and a single monetary policy would be the key characteristics of monetary union, they now face tough talks on the steps needed to achieve it.

The governors' report is likely to be discussed by EC finance ministers in May and by heads of government at the Madrid summit in June.

Any institutional development in the monetary area would require a unanimously agreed amendment to the Treaty of Rome, ratified by all national parliaments.

Officials say that the committee's work has been little disturbed by the clear statement of opposition to monetary union made at the end of January by Mr Nigel Lawson, Britain's Chancellor of the Exchequer.

Robin Leigh Pemberton: loss of sovereignty

Inside the committee, Mr Robin Leigh Pemberton, the governor of the Bank of England, has broadly reflected a position that monetary union would involve an unacceptable loss of national sovereignty and that the economic integration which will flow from creation of the single market after 1992 will be sufficient to guarantee growth and development in the EC.

This view is being cold-shouldered, however, by some other participants and the final report is expected to say that the single market will need to be accompanied by further economic integration and monetary co-operation if its benefits are to be realised. The report will probably envisage a steady expansion of the Community's budget with extended financial support for its backward regions which will face greater difficulties because of the single market.

The emerging consensus in the committee foresees a parallel development between further economic integration and a gradual strengthening of monetary co-operation, without defining any timeframe for the achievement of monetary union. Some central bankers favour recommending the adoption of initial measures on the monetary front to coincide with the freeing of capital movements from July 1 1990.

These would involve completing the European Monetary System through full membership of all EC countries, and eliminating the wider band of fluctuation allowed for the Italian lira and the Irish punt, together with closer co-ordination in the fixing both of national monetary policies and also of budgetary objectives. This plan also emphasises the need to expand the use of the European Currency Unit.

The scepticism of the Bundesbank, the West German central bank, about monetary union is said to be qualified by a desire not to stand outside the majority view on the committee. It has consistently sought guarantees that West Germany's preoccupation with minimising inflation would be enshrined.

European officials say that the Bundesbank's views about the function and independence from political interference of a federal central bank are expected to be reflected in the final report.

Economic diary Page 19

Commission plans new regime for Community shipping

By Kevin Brown, Transport Correspondent, in Brussels

THE European Commission is drawing up plans for a subsidy regime for shipping, linked to the establishment of a European flag for Community tonnage.

The proposals are intended to reverse a drift towards open registers, or "flags of convenience," which has reduced the proportion of world tonnage registered in the Community to less than 16 per cent last year from 31 per cent in 1978.

A key aim would be to protect the remaining 143,000 jobs held by EC seafarers. This compares with 276,000 in 1978.

Tentative plans for a European flag were put forward two years ago by Mr Stanley Clinton Davis, the former British Transport Commissioner, but made little progress.

However, Mr Karel Van Miert, the new Transport Commissioner, has put his weight behind the idea after an informal meeting of Community transport ministers this month.

Mr Van Miert has told officials to prepare positive proposals for aid to shipowners to be considered by the Council of Transport Ministers at its next official meeting in June.

The proposals have the twin aims of keeping as many European seafarers' jobs as possible while bridging the cost gap between European flags and open registers such as those in Liberia, Panama and Cyprus.

These objectives had been regarded as incompatible, as European shipowners transfer their tonnage to open registers, largely so they could replace higher-paid European seafarers with cheaper third-world crews.

Officials believe they may have found a way to resolve this difficulty by setting up a "parallel" register which would be open only to ships already registered in an EC country.

The parallel register would be linked to a subsidy scheme, modelled on the EC sixth directive for shipbuilding aid, which would aim to cover the difference in costs between European and open registers.

Subsidies would take the form of tax reliefs implemented by governments on the basis of a framework being worked out by the Commission.

Officials say several problems remain to be solved before the proposals are submitted to the full Commission for approval in May.

One is that the level of subsidy required to bridge the cost gap varies between ships, partly as a result of differences in the number of seafarers required. However the subsidy rules could be framed to take account of this.

● US Commerce Department officials have voiced concern that "narrow national interests" in the Community could delay the liberalisation of markets after 1992 and that "special interests" would attempt to deny the reform's benefits to non-EC countries. Page 4

Human rights incident mars Bush China visit

Continued from Page 1

where we stand with China," he said.

The prevailing theme has been homecoming, recalling Mr Bush's days in Peking as a diplomat in 1974-75. In an anteroom of the Great Hall of the People, designed in Stalinist railway waiting-room style, Mr Bush and Deng Xiaoping, the Chinese leader, greeted each other as old friends. The spritely 84-year-old architect of China's recent reforms, proved himself a master of the photo-opportunity, stealing the scene by prasing the President's fitness and suggesting that they play bridge together.

In a series of talks with Chinese officials, the President made clear that the US welcomed the recent warming in Sino-Soviet relations leading up to the visit to China in May by Mr Mikhail Gorbachev, the Soviet leader. This partly reflects US confidence in the strength of current good relations with China. Deng apparently empahsised the problems which will make full normalisation difficult.

On Kampuchea, Mr Bush underlined the US view that there must be a rapid withdrawal of Vietnmese troops, a coalition government headed by Prince Sihanouk and safeguards against the Khmer Rouge returning to dominance. and international safeguards.

In his television interview, Mr Bush said he would like China to take actions to enhance further investment, with some sort of bilateral agreement on trade and investment. He also wlecomed Chinese moves towards a new patent code and the drafting of copyright legislation, "which would be very helpful."

Mr Bush said the US would continue to export highly sophisticated technology to China within the Cocom limits on the export of military technologies.

Bankers set for bitter share talks

Continued from Page 1

partnership in Cartera Central, accusing them of running the joint venture as their own and of failing to consult KIO on important policy.

Cartera Central holds just under 13 per cent of Banco Central and there have even been suggestions that the Kuwaitis might try to sell their share of it directly to the bank to spite the cousins. But this would be difficult because both sides agreed when they formed Cartera Central at the end of 1987 that neither could sell its holding without the other's agreement for five years.

The Albertos, who manage a construction company, Conycon, owned by their wives (who are sisters) have indicated that they would be prepared to buy KIO out and run what is the biggest shareholding in Banco Central on their own. KIO and the Albertos are likely to meet this week

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	12	54	Dubrovnik	C	13	55	Malta	S	20	68	Rhodes	F	16	61
Algiers	C	20	68	Edinburgh	F	03	37	Manchester	C	05	41	Rio de J'o	-	—	—
Amsterdam	R	04	39	Faro	F	18	64	Manila	F	33	91	Rome	C	14	57
Athens	C	17	63	Florence	C	12	54	Melbourne	S	21	70	Salzburg	C	04	39
Bahrain	F	21	70	Frankfurt	C	11	52	Mexico City	F	21	70	San Francisco	F	18	65
Bangkok	F	33	91	Funchal	S	20	68	Miami	C	17	62	Seoul	F	09	48
Barcelona	F	13	55	Geneva	C	10	50	Milan	F	11	52	Singapore	C	32	90
Beirut	C	06	43	Gibraltar	C	16	61	Montreal	C	-9	48	Stockholm	C	04	39
Belfast	F	04	39	Glasgow	F	03	37	Moscow	C	03	37	Strasbourg	F	06	43
Belgrade	C	18	64	Guernsey	C	07	45	Munich	C	05	41	Sydney	R	24	75
Berlin	C	08	46	Helsinki	R	03	37	Nairobi	F	27	81	Taipei	C	17	63
Biarritz	R	05	41	H. Kong	C	19	66	Naples	F	12	54	Tangier	F	17	63
Bombay	S	34	93	Innsbruck	C	01	34	Nassau	F	27	80	Tel Aviv	C	22	72
Bordeaux	C	06	43	Inverness	F	05	41	New Delhi	F	31	88	Tenerife	F	19	66
Brussels	C	08	46	Islamabad	C	26	79	New York	C	01	34	Tokyo	F	13	55
Budapest	R	09	48	Istanbul	F	17	63	Nice	S	12	54	Toronto	C	-3	27
B. Aires	F	28	82	Jakarta	R	30	86	Nicosia	F	20	68	Tunis	C	15	59
Cairo	F	22	72	Jersey	C	05	41	Oporto	F	11	52	Valencia	F	15	59
Cape Town	S	24	75	Jo'burg	F	26	79	Oslo	R	03	37	Venice	S	11	52
Caracas	C	25	77	Lima	-	—	—	Paris	C	07	45	Vienna	C	06	43
Casablanca	C	15	59	Lisbon	C	16	61	Peking	C	06	43	Warsaw	F	15	59
Chicago	C	04	39	London	C	09	48	Prague	F	06	43	Washington	Sn	01	34
Cologne	C	05	41	Los Angeles	C	29	84	Reykjavik	F	00	32	Zurich	F	06	43
Copenhagen	F	05	41	Luxembourg	C	01	34								
Corfu	C	15	59	Madrid	C	15	59								
Dallas	S	12	54	Majorca	F	17	63								
Dublin	C	05	41	Malaga	F	19	66								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Khomeini-Moscow link

Continued from Page 1

In Iran, Ayatollah Khomeini was quoted as saying by Tehran Radio after his meeting with Mr Shevardnadze: "I wanted to open for Mr Gorbachev a window to a great world, that is the world after death which is the eternal one. That was the main thrust of my message and I hope he will try again in this respect."

Mr Shevardnadze, at the end of a successful Middle East tour during which he has pressed for negotiations to end the Arab-Israeli conflict and efforts to consolidate the Gulf war ceasefire, was diplomatic to a fault.

The Soviet leadership, he said, thought Ayatollah Khomeini's message was full of ideas.

Mr Shevardnadze, mindful of the Soviet Union's own Moslem communities near the Iran border, has sidestepped the Rushdie affair during his tour.

Although the Ayatollah has consistently distanced himself from both West and East, he welcomed the Soviet withdrawal from Afghanistan and said there should be co-operation with Moscow

THE LEX COLUMN

Japan's warrant bonanza

Everybody knows the London market for Japanese equity warrant bonds is huge, and everybody knows it is hugely profitable; and almost everybody who is not involved resents it. But the first eight weeks of 1989 have given new meaning to all the old superlatives. Last week, while Andrew Hugh Smith was talking in nice round figures about £½bn in City losses, the Japanese brokers were doing their bit for London profitability by generating millions in this, their own peculiar corner of the Euromarket.

There is nothing remotely peculiar about the reasons for the market's buoyancy, though: with the Nikkei index levitating daily, the attractions of a dollar Eurobond with equity warrants are not difficult to discover. The warrants ensure a low coupon on the bond; and once the dollar debt has been swapped into yen, Japanese companies end up having borrowed at rates which look embarrassingly low even in the land of the miniscule interest rate.

Since the beginning of this year – which more or less coincided with the Tokyo market splurge occasioned by the death of the Emperor – some $11.77bn in such bonds have been issued by Japanese borrowers. The number of issues is identical to last year's figure for the same period, but the volume three times as high; indeed, the new issue market has already done over 40 per cent as much business as it managed in the whole of 1988.

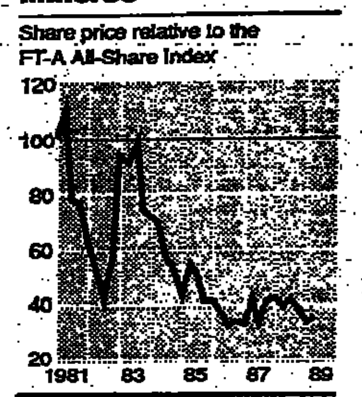
Individual Japanese securities firms all deny having made vast sums of money managing, underwriting and trading the bonds and warrants so far this year; but the market as a whole – which the Japanese easily dominate – has clearly made a pretty penny. Fees alone on $11.77bn in new issues would have totalled over $260m. And with most issues going straight to a large premium, the community as a whole may easily have made as much again from secondary trading.

Some of this money clearly goes to non-Japanese houses – fees trickle down the syndicate away from the Japanese lead manager, and outsiders are involved in secondary trading – but the main beneficiaries must be those domiciled in Tokyo. And given that the four big Tokyo brokers reported a profit on their London operations of only Y14bn (£63m) for all of the financial year to September 1988 – Y10.9bn of it from Nomura alone – the extra cannot be unwelcome.

They bridle at the suggestion that this particular gravy train keeps their entire London

Minorco

Share price relative to the FT-A All-Share Index



operations on the move. But even if Nomura earns less than 30 per cent of UK revenues from this business, every little helps in the struggle to take London on in more traditional markets. Nikko's and Yamaichi's dependence on it is even higher, with over half the former's revenues and an estimated 40 per cent of the latter's coming from this source. And so far, no end is in sight. Tokyo, in its wisdom, will not allow such business to be done on Japanese soil; and in the near term, those involved probably have more to fear from the performance of the Tokyo market than from the bureaucrats.

UK rights issues

The market does not know who or when, but it is daily expecting a big rights issue. Already it has been through Beecham, Tate and Lyle, RTZ, and NatWest, and now suspects any company that has either made a big acquisition, or is believed to want to do so. But every day the rumours have proved groundless. Despite a 13 per cent rise in the market this year, barely £100m has been raised, less than 3 per cent of last year's total. Either companies do not need money, or a demanding Spring is ahead.

The first quarter is often strangely dry, and perhaps this year is just an extreme version of the usual pattern. Some companies may have been surprised by the speed of the rally, or held back by a greedy hope of further rises. However, there are good reasons to expect the Spring rights flood to be lower this year, never mind what the market is saying to the contrary.

In part, the reasons are specific. Among the cash-hungry clearers, for instance, NatWest and Midland last week discovered a more painless way of boosting their ratios through scrip issues. More generally, though, the corporate sector is brimming with liquidity, after almost a decade of earnings rising faster than dividends.

The new corporate craze for core businesses has also brought the cash in, with managements just as inclined to dispose as to acquire. UK companies have long since stopped being dependent on short term funds; and according to SG Warburg, now have net cash balances equal to 15 per cent of shareholders funds.

Whatever the reason for companies' reluctance, it surely cannot be fear of a frosty response. While no investor likes an opportunistic rights issue, institutions now have so much cash that they could absorb the record £7bn issued in 1987 over the next few months alone; and unlike last year, they are showing a genuine appetite for equity. On the Continent, after all, French companies have called for FFr10bn in the last three months, and in Germany the biggest of the lot, Deutsche Bank and Daimler, have issues on the way.

Minorco

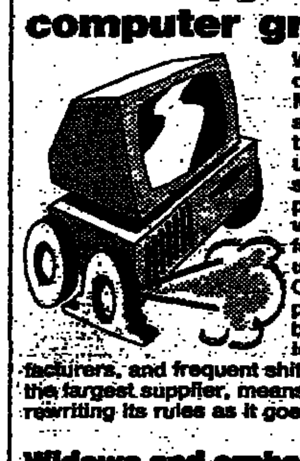
Minorco seems to be having a little trouble deciding whether its new offer for Consolidated Gold Fields is worth 20 times earnings or 27.6 times earnings. Its first offer calculated the exit multiple on the basis of Gold Fields' attributable profits being £149.3m, but this has now dropped to £108.4m as Minorco has decided that its case would look even better if it stripped out Gold Fields' share of Newmont's asset sales and share dealing profits. However, there are a couple of more important reasons – aside from price – why Minorco's latest offer document does not make convincing reading.

The first is its insistence that it will not make an all cash offer, and the second is the continuing delay in recruiting some heavyweight figures onto its board to prove that it is something more than an offshore satellite of Anglo American. Indeed, if the new Minorco management team really is as independent as it suggests, it should have come up with a more adventurous replacement for Mr Harry Oppenheimer than his son. Minorco's shares trade at a 40 per cent discount to a net asset value of $3.9bn, which is a measure of the scale of the credibility problem. If only Minorco could point to some action to reduce this discount – other than its bid for Gold Fields – then investors might be more willing to accept its paper. For all its talk of the advantages of hands-on management, Minorco's most successful investments to date have been its most passive – Salomon and Gold Fields.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday February 27 1989

INSIDE

A bumpy ride for computer groups



Warnings last week of a profits plunge at MBS, the British personal computer distributor, have underlined the shake-out taking place in a sector which is youthful, fast-moving and unpredictable. Changes in the European market-place before 1992, turbulence among manufacturers, and frequent shifts in policy by IBM, the largest supplier, mean that the industry is rewriting its rules as it goes. Page 25

Widows and orphans beware

High-coupon Australian dollar bonds have traditionally been the staple diet of Continental European retail investors. But while many find the coupons irresistible, there are plenty who may be put off by the structure of the deals. As one official comments: "These are not bonds for widows and orphans." Page 22

The loneliness of the long-distance shopper

Try and buy a pair of shoes in Britain and you can be left sitting in your socks for ages. Shops in the UK have a reputation for treating customers shoddily. Maggie Urry argues in the Business Column that they appear to be staffed mainly by people who know nothing about the products they are selling. But retailers are now beginning to realise that they have been losing sales through poor service. Page 38

British Steel - a key to takeover deadlock

A complex takeover dispute between Klöckner-Werke, the West German steel and capital goods group, and APV, the aggressive UK food-processing machinery group, could be resolved in APV's favour by the intervention of another UK company – British Steel. David Goodhart reports on the possibility of a break in this corporate stalemate. Page 23

Widening convulsions from the Nestlé bomb

William Dullforce in Geneva reports on moves to reform the equities market in Switzerland

THE BOMB that Nestlé dropped on the Swiss stock market on November 17, when it announced the opening of its registered shares to foreigners, is still sending shock waves through the Swiss financial establishment.

Evidence of the continuing convulsions came from three sources last week. Mr Daniel Regolatti, the senior vice president responsible for Nestlé's finance, highlighted the current deficiencies of the stock exchange, when spelling out the reasons for the foods group's decision.

Mr Markus Lusser, the increasingly outspoken president of the Swiss National Bank, warned that in the context of the current merger and takeover wave, Swiss corporate practices had to change if Switzerland wanted to avoid retaliation from the European Community.

Swiss bankers, talking to foreign journalists at a briefing organised by their Bankers' Association, emphasised their opposition to discrimination against foreigners on the Swiss equities market. In all three cases the message was clear. Swiss companies cannot continue to operate globally and bid for foreign concerns while clothing themselves in bid-proof armour and maintaining inefficient stock exchanges at home.

The full impact of Nestlé's decision - taken after it had completed its contested takeover of Rowntree, confectionery manufacturer, in the UK - to remove the barrier to foreign ownership of its registered stock will only become clear in a couple of years.

But it has already accelerated modernisation of the stock market. It has shunted the Federal parliament onto another track in revising company law, and it has set boardroom thinking about Swiss companies' three-tier stock structure of registered, bearer and non-voting shares.

So far, the only measurable effect has been a surge in the prices of registered shares (banned to foreigners) and eroding of the wide premiums at which bearer shares used to trade against them.

Between November 17 and last Friday, the Swiss general index rose by just over 6 per cent. The index for registered shares had climbed by 22.6 per cent while the bearer share index had fallen by 4.3 per cent. (The index for non-voting participation certificates had put on 4.1 per cent.)

No other company has followed Nestlé's example yet but the market is alert. Last week the rumour among brokers was that something was cooking in Ciba-Geigy and Sandoz, the two big chemical groups. The rumour was enhanced by Ciba-Geigy's announcement that it proposed to raise its 1988 dividend by 32 per cent.

Whether or not Ciba-Geigy is planning changes to its share categories, the unusually steep increase in its dividend payout would seem to signal the kind of change in Swiss corporate philosophy which has been widely advocated since Nestlé's move.

Essentially, the change would be to recognise that a high share price offers a more acceptable defence against takeover and a better instrument for raising new capital than the current practice of restricting the ownership of registered stock, accumulating hidden reserves, paying miserly dividends and compensating shareholders with attractively-priced rights issues.

This system, Mr Regolatti explained, put the cost of new equity capital for Nestlé at 15 to 16 per cent of the sum raised. Coupled with the 3 per cent government stamp duty and bank commissions, the cost became at least double that of Nestlé's international competitors.

The very smallness of the Swiss equities market was another crucial element in Nestlé's calculations.

The Swiss market could have absorbed only SFr350m to SFr400m in new Nestlé equity within two years – a mere "drop on a hot stone" for a company that last year spent SFr7bn ($4.5bn) on acquisitions.

Mr Regolatti was also critical of the Swiss pension funds, sitting on assets of about SFr150bn, of which they invest only 5 to 7 per cent in Swiss stocks.

Low liquidity and the absence of market makers were other defects of the Swiss market which Mr Regolatti saw as partly responsible for the wide fluctuations in Nestlé shares after its announcement on November 17.

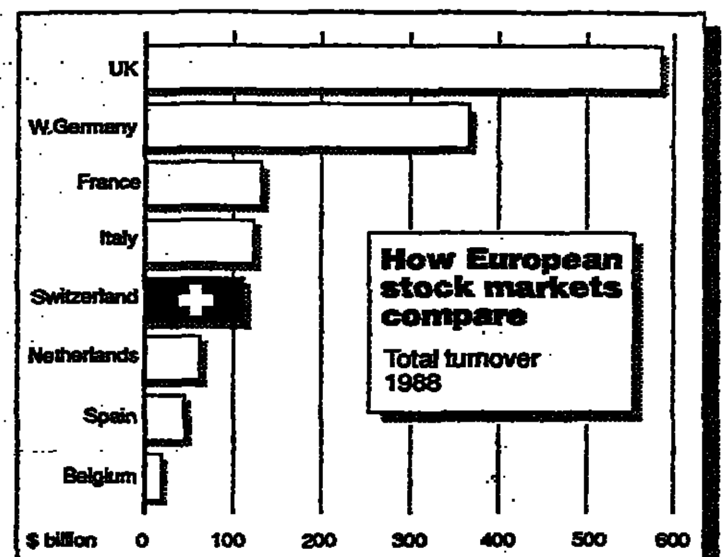
The liquidity problem was not helped by having shares traded on three major Swiss exchanges – Zurich, Geneva and Basle - which did not even streamline their operations. A single Swiss stock exchange was a must, Mr Regolatti said.

Some of these faults are already being corrected in reaction to Nestlé's move. Late last year an executive board was created for the Association of Swiss Stock Exchanges and it has been agreed that, in exceptional market circumstances, decisions taken in Zurich will be binding on all the other exchanges.

Modernisation plans have been concentrated on creating a single electronic equities market during the next three years.

Finally, Nestlé's action has turned the restrictions on registered shares into a hot political issue. After discussing revision of company law for 30 years, the Federal parliament arrived at a draft bill allowing companies to refuse to recognise shareholders only if they were foreigners or if they held more than a fixed portion of the total stock.

Now the reservation against foreigners is being reviewed. The Swiss bankers themselves are asking for it to be deleted "in view of the growing significance of European compatibility."



Adding up the costs of political evasion

Anthony Harris in Washington

"THERE'S a touch of Keystone Cops here," said a Washington insider, indulgently, in the first few days; but the joke is wearing painfully thin.

President George Bush is coming back to Washington to take charge again of an administration which is in an astonishing mess, less than half-way into the legendary first 100 days when the tone is meant to be set.

Mr Bush has staked his prestige on Senator John Tower, who will make a gravely weakened Secretary of Defence, even if he is confirmed against the odds. In doing so, the President has offended not only the powerful Senator Sam Nunn, but his own right wing, which has provided much of the evidence against Mr Tower. The right is also incensed about what it regards as a weak-kneed response by President Bush to the Ayatollah Khomeini of Iran.

Meanwhile, the Administration is engaged in evasive sparring with Congress over a budget which now looks too cunning by half. The President and the Treasury are openly at odds with the Federal Reserve – although Mr Michael Boskin, the chief economic adviser, had the sense to speak up for Mr Alan Greenspan, the Fed chairman, yesterday – and the markets hate it.

Mr James Baker, Secretary of State, came back empty-handed from his Nato tour, and the normally diplomatic officials of the State Department are complaining about his management style to every journalist willing to listen. Meanwhile, his public squabble with Mr Boyden Gray, ethics supremo, over his bank shareholding, has seriously dented his prestige and gossips are talking about a power struggle.

The thrift industry rescue plan is the only decisive move the President has made so far. It is getting a poor reception in Congress and in the Press: the off-budget financing plan looks evasive (although it makes good economic sense) and Mr Nicholas Brady, the Treasury Secretary, did not help by appearing to say the financing plan was devised to satisfy the Group of Seven.

More important, the plan evades the hard choices about the industry. Mr Greenspan would like to let it wither away, by encouraging the thrifts turn into banks. Congress would like to re-regulate it, and forbid the risky investments which caused the disaster.

Mr William Seidman at the Federal Deposit Insurance Corporation wants to give the supervisors sharp teeth, with the power to raise insurance premiums at ill-run thrifts, and shut them down at six months' notice if that fails. The Administration has avoided all these alternatives.

This is a sad omen for the budget process. A new administration deserves time to study new policies; but when the policies which do emerge dodge the issues, real doubts are in order.

The issues raised by the budget are getting more difficult by the day. They are summed up in a telling sentence in the Federal Reserve report to Congress on monetary policy: "We expect rather more inflation and rather less real growth than does the Administration, but the differences are not large."

Unfortunately, small differences have a large impact on the deficit, which itself is simply a difference of less than one per cent between two large sums.

For example, short-term interest rates have already risen a full percentage point since the budget projections were published. Unless the rise has a clear impact on activity and inflation within the next four months, they will stay high, and the interest rates assumption in the official projection may have to be revised upward in July. Each point in interest rates costs the US Treasury some $11bn (£6.2bn) in debt service in a full year.

The alternative could be just as bad. Suppose the squeeze does work, and the economy slows quite soon: then the growth projections will have to be cut. Each one per cent fall in growth would cost $15bn in revenue.

Wishful thinking suggests a third alternative: the Fed manages to check inflation without reducing growth at all – although the trick has never been done before, and the Fed believes that pressure caused by growth is the cause of the inflation.

They are much more aware than anyone in Washington seems to be that Gramm-Rudman has failed to cut the deficit in the last two years. On the contrary, it has risen sharply to a projected $170bn this year. If the July projections – the ones on which the Gramm-Rudman deficit projection are based – are judged to be based on wishful thinking, then the markets might decide that the whole exercise is a sham. We know what happens when the markets reach such a verdict: it happened in October 1987.

In purely economic terms, one can still paint a more optimistic picture. Inflation could prove no more than a blip, since the producer price index shows a picture rather like a boa constrictor swallowing a goat. The bulge which was apparent in mid-1988 at the raw material stage has now subsided and moved on to intermediate goods prices. It could reach final output and disappear.

The fuss about wages must seem to any UK observer overdone; the present 4 per cent trend represents only about a 3 per cent rise in unit costs and is consistent with lower inflation.

Equally, the trade deficit could start to improve again as the rush of capital goods imports to feed the 1988 investment boom abates. Capital goods account for more than 30 per cent of total imports, so the impact could be large. There was a sharp rise in capital goods exports in December, which suggests that domestic demand may be abating.

While falling investment is certainly the least desirable way to cool the economy and help the trade balance, it is the political rather than the economic prospect which is potentially alarming. The Administration faces a whole range of tough choices on issues far more important than the thrift bail-out, but shows no ability at this stage to make those choices.

Meanwhile, Congress is already beginning to respond to the stagnant trade figures with protectionist rumbles. Senator Lloyd Bentsen, architect of the omnibus trade bill, is calling for the President to use his new powers; and Senator Bentsen is on the President's breakfast list next week as he lobbies for Mr Tower. This is a sinister conjuncture.

Above all, it is Mr Bush's dogged attachment to his read-my-lips slogans which threatens trouble. Even before interest rates rose and a real danger of over-heating appeared, the Congressional Budget Office estimated that his budget proposals would produce a deficit $20bn above the Gramm-Rudman target. That gap should now be well over $30bn.

If it takes another market crash to persuade Mr Bush to face reality and higher taxes, it may be too late to prevent the hard landing which has been forecast for so long.

ECONOMICS NOTEBOOK

Fair weather friends in Frankfurt

LAST WEEK'S extremely cordial meeting in Frankfurt between Prime Minister Margaret Thatcher of the UK and Mr Karl-Otto Pöhl, the Bundesbank president, marked an alliance but not an identity of views on European matters.

As in all good alliances, there are elements of self- and mutual deception as well as mutual interest in the Thatcher-Pöhl relationship, especially concerning progress towards economic and monetary union (EMU) in the European Community.

While Mr Pöhl praised Mrs Thatcher's Bruges speech of last year for its warnings against excessive bureaucracy, centralisation and regulation in Europe, he stuck to his view that Britain should join the exchange rate mechanism (ERM) of the European Monetary System (EMS).

Although extremely sceptical about early progress towards EMU, the Bundesbank president does not rule out agreement on a European central bank or common European currency at some point in the distant future.

For the moment, however, Britain's fierce opposition to economic and monetary union is working to Mr Pöhl's advantage. Some of his officials worry that his fulsome praise of Mrs Thatcher could make the Bundesbank appear too reactionary to supporters of monetary union in West Germany and elsewhere. Mr Pöhl knows, however, that as long as Britain is prepared to veto the treaty changes needed to bring about EMU, he does not have to worry about compromising the Bundesbank's duty to keep inflation in West Germany under control.

At the same time, he has his own agenda for turning the existing European Monetary System into an EMU centred on the D-Mark. Mr Pöhl's approach was expounded most clearly in a recent speech in Hamburg, when he described the D-Mark as the key intervention and reserve currency in the EMS, in much the same way as the dollar was the anchor of the post-war Bretton Woods system of fixed exchange rates.

As a first step in building the EMS into an economic and monetary union, he suggested that all Community countries should subscribe to the same membership rules of the monetary system. That would mean Italy narrowing the wide band of fluctuation currently allowed the Lire as well as Britain joining the ERM.

A second condition would be the complete liberalisation of money and capital flows in the Community. This move, which is already in train, would have to be backed by appropriate policies in nations with long histories of exchange control – such as Italy and France – so that the financial markets could be convinced liberalisation is irreversible.

With these two steps complete, the EC would be close to a system of fixed exchange rates tied to the D-Mark. Once this proxy for a monetary union was well established, political leaders in the Community could, if they wished, consider whether to have the institutional trappings of EMU such as a European central bank.

Mr Pöhl does not have Mrs Thatcher's hang-up about loss of sovereignty. Arguably, a European central bank would be no bad thing for him, provided it were as autonomous and powerful as the Bundesbank.

In the nearer term, all will depend on how the European leaders respond to the forthcoming report of the Delors Committee of central bank governors on steps towards EMU.

After meeting Mrs Thatcher last week, Mr Helmut Kohl, West German Chancellor, caused a stir by saying he thought EMU would not be discussed in great detail at the Madrid summit of Community leaders in June as planned, but in the second half of the year under France's EC presidency.

This could suggest that France has plans to shift the debate towards its own pro-EMU stance. Meanwhile, Mrs Thatcher has a good opportunity to obtain clarification of Mr Kohl's remarks when she meets President François Mitterrand of France in Paris for bi-lateral consultations today.

No gripes

One of the more striking points in a lecture by Professor Douglas McWilliams of the Confederation of British Industry last week was the assertion that the financial pressures imposed on managers by the City of London are a good thing.

No serious gripes about City short-termism from Mr McWilliams, who recently took up the post of chief economic adviser at the CBI, while retaining his ties with Kingston Business School and IBM.

Instead, he believes the increased sophistication of financial markets in Britain has forced UK management to take difficult decisions.

Mr McWilliams estimates that perhaps 80 per cent of managers today would agree with him that tough financial discipline is a source of competitive advantage to the UK.

One of the unsung advantages of the decision to abolish exchange controls in 1979 has been the realisation that Britain can no longer afford levels of profitability below those in other countries.

Peter Norman

THIS WEEK

THE SIZE of Britain's current account deficit will take centre stage in financial markets on Wednesday with the publication of trade figures for January.

Most City of London analysts believe that high interest rates, engineered by Mr Nigel Lawson, the Chancellor, are slowing the economy. But without an improvement in the outlook for trade, fears that base rates may have to rise again could intensify.

The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a current account deficit of £1.5bn ($2.6bn) compared with £1.3bn in December.

France's consumer price index for January is released today. No pick-up in underlying inflationary pressures appears likely, although technical factors may have pushed the index up slightly.

The latest of the regular Franco-Anglo summits takes place in Paris today.

Terms of the latest batch of West German securities repurchase agreements are announced on Wednesday.

Analysts will be watching for signs that the Bundesbank will tighten interest rates at its council meeting on Thursday.

West German import prices for January, expected today, are likely to show a sharp increase on December.

Industrial production figures for January are expected late this week and could add to fears of mounting inflationary pressures. Unemployment figures for February are also due.

Interest in Japan will focus mainly on the balance of payments figures for January, due on Friday. The customs cleared trade figures for January have already indicated an another embarrassing increase in Japan's surplus.

US statistics are likely to focus on Wednesday's figures for personal income and consumption in January which will give a guide to the strength of the consumer sector. Rises of 1.0 per cent and 0.4 per cent are expected respectively.

Leading indicators for January are published on Friday.

Other events and statistics this week (with MMS International consensus in brackets) include:

Today: US weekly Treasury bill auction. Australian retail sales in December.

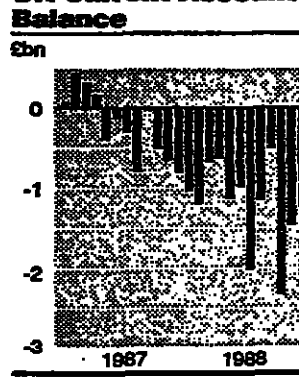
Tuesday: US revised gross national product in fourth quarter. (2.5 per cent), GNP deflator (4.7 per cent). Fourth quarter balance of payments figures. UK new vehicle registrations in January.

Wednesday: US construction spending (+1.0 per cent). UK Bank of England figures including bill turnover statistics and sterling commercial paper in January.

Thursday: US factory orders (-1.4 per cent). Single family home sales (+2.0 per cent). UK official reserves. (rise of $200m), capital issues and redemptions in February.

Friday: US auto sales in February. UK Department of Trade and Industry, company liquidity survey in fourth quarter 1988.

UK Current Account Balance



INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

An unusual high flier for Algeria

WHILE SYNDICATED lending to corporate and sovereign borrowers appears to have slid into mid-winter lethargy, aircraft financing is flying high.

Of the various deals around, perhaps the most unusual is one valued at $250m for Air Algerie, for which the mandate has been awarded to Citicorp. Unlike most other governments, the Algerians will not allow the aircraft – in this case several Boeing 767s – to be mortgaged to the lenders against repayment. Thus, the loan has had to be structured as 12-year asset financing without the asset.

Fortunately, the US Export-Import Bank has stepped into the breach and is providing 62½ per cent of the financing directly at its consensus rate for aircraft loans of 8.9 per cent.

The Exim Bank has also agreed to guarantee the difference up to 85 per cent of the financing.

The remainder of the loan will be not to Air Algerie but to Banque Exterieur d'Algerie, the Government's arm for foreign borrowings, and will be classified as direct country risk.

And because of Algeria's somewhat unusual stance on recourse to the aircraft, lenders will not be able to seek repossession or political risk insurance for their loans.

But even without the security of the assets, bankers noted that the mandate was quite closely contested by a number of banks, all of which are eager to carve out a reputation as a leading provider of aircraft finance.

Also in the market with a hotly sought-after mandate is the national airline of United Arab Emirates which is seeking about $70m for the purchase of two aircraft from Airbus Industrie.

Because the borrower infrequently appears in the market and the warm reception accorded a recent syndication for Gulf Air, the loan has attracted unusual interest beyond its size.

Tunis Air, which has recently agreed to purchase three Airbus 320 aircraft with financing from three European export finance agencies, is said to be considering alternative financing offers from private sources.

Also looking to award a mandate is Aer Lingus, which needs to finance two Boeing 737 aircraft.

Meanwhile, **HFC Bank**, a subsidiary of Chicago-based Household International, a consumer finance company, is seeking a £200m five-year multicurrency facility. First Chicago is arranger.

The loan, which is expected to be fully drawn within three months, carries a margin of 12½ basis points for the first 2½ years, rising to 17½ basis points thereafter.

There are commitment fees for those lending £15m of 7½ basis points, five basis points for commitments of £10m to £14m and three basis points for commitments of £5m to £9m.

JP Morgan, after a delay of about a year, launched its £200m commercial paper programme backed by home mortgages from Canadian Imperial Bank of Commerce.

It is fully backstopped by a £200m revolving credit arranged by SG Warburg. Morgan said the initial reception had been warm and it expects that the programme will be fully utilised within three to four weeks.

Among other things, the launch of the product had been held up by confusing and sometimes conflicting requirements of the two leading rating agencies.

The programme is rated A-1 by Standard & Poor's and P-1 by Moody's Investors Service.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	11,934.0	0.0	1,371.0	11,434.0
Prev	2,323.8	0.2	2.0	11,340.6
Other	5,621.9	13.5	71.1	2,335.4
Prev	4,410.3	186.7	701.8	4,153.6
Secondary Market				
US$	20,766.3	1,115.1	5,016.0	6,648.0
Prev	12,980.6	990.6	3,582.4	5,527.4
Other	18,786.7	1,287.9	3,076.4	27,070.7
Prev	18,793.9	1,465.2	4,465.9	21,904.6

	Cedel	Euroclear	Total
US$	12,650.6	45,633.8	58,284.4
Prev	9,145.8	27,601.8	36,747.6
Other	25,520.5	32,743.1	58,263.6
Prev	25,048.9	31,033.1	56,082.0

Week to February 23, 1989

Source: AIBD

INTERNATIONAL BONDS

Counting the cost of high coupon Australian $ deals

COUPONS IN the Australian dollar sector of the Eurobond market keep reaching record levels. Last week saw two one-year issues with 20 per cent coupons, and a third, a A$50m deal for Banque Générale du Luxembourg (BGL), with the current high of 20¼ per cent.

Not surprisingly, demand for all these bonds was good, heavy enough in the case of a Kredietbank issue brought by Credit Suisse First Boston for it to be increased from A$60m to A$80m. Syndicate managers are forecasting that if the Australian dollar drops back to recent levels, there will be a rush of similar issues.

High-coupon Australian dollar bonds have traditionally been the staple diet of continental European retail investors. If many find the coupons irresistible, however, there are plenty who should be put off by the structure of the deals. On redemption, the principal can be paid either in Australian or US dollars at the option of the borrower. The foreign exchange rate is pegged at around US$0.80 per Australian dollar.

Essentially, the investor writes a type of currency call option to the borrower and is compensated by the higher coupon. Eurobond houses are sharply divided as to whether investors understand the implications of this option.

One official commented: "These are not bonds for widows and orphans. Investors seduced by the coupon should be aware that they could be badly stung if the Australian dollar rises against the US currency."

Others felt that relatively few small investors would end up owning the bonds, claiming that the large retail outlets exist to protect their clients from undue risk.

Several houses have done calculations showing the possible effects of different currency movements on the bonds. The BGL issue, lead managed by Bankers Trust International, provides a useful example. The figures below were not provided by Bankers Trust and were based on Friday's market conditions.

The BGL bonds were launched at 101⅝ with a 20¼ per cent coupon. End investors could buy the paper at around 100¾, giving them a nominal offer yield of 19.35 per cent.

An investor could buy a straight Australian dollar Eurobond, where one-year paper currently yields around 16.90 per cent. On a crude yield basis, then, the option costs the borrower 2.45 percentage points. Put another way, the investor receives 2.45 percentage points in yield as payment for the foreign exchange risk on the call option written to the borrower.

Working forward, if the bonds are redeemed in Australian dollars, each A$1,000 bond will pay A$1,202.50. If the redemption currency is US dollars, investors will receive $962.

At current exchange rates for the Australian dollar of around US$0.82¾, if the BGL bonds are redeemed in US dollars, the net yield in Australian dollar terms falls to 15.39 per cent.

In other words, if the Australian dollar remains at current levels, or rises further, the currency option has a dramatic effect on the bonds' redemption value. The more the Australian dollar appreciates against the US dollar, the lower the redemption yield of the bonds in Australian dollar terms.

In that case, investors would do better if they bought one-year straight A$-denominated bonds and took the near-17 per cent yields currently available.

In the opposite case, where the Australian dollar falls below US$0.80 to, say US$0.78, then investors are "in the money," receiving the full 19.65 per cent yield.

As one official points out, however, all the above calculations assume that investors are paying for the bonds with Australian dollars and are happy to receive their principal in that currency. "What do you do if you're a German investor paying in D-Mark?" asked one Eurobond official.

Continental investors have to take a further level of currency risk into account. They not only have to have a firm view on where the Australian dollar will be in a year's time, they also have to consider their local currency risk.

"Suddenly you see why these coupons are so high," said a bond salesman. "You need very nimble foreign exchange capability to be sure of protecting yourself from the redemption option."

A further point made by the comanager of one of last week's deals is that only investors intending to hold the bonds to maturity should buy the paper. "The bet is on the currency and you will not see secondary market prices which make it economical to sell these bonds before maturity."

For the issuing houses, the high-coupon deals offer a pricing challenge. They have to attach a value to the currency option, because this is usually split from the bonds and traded as a separate commodity by the borrower.

Where the issue is swap-related, the borrower sells the option to the market and uses the proceeds to subsidise the swap. The timing of the deals is thus dependent on several variables, from the currency, to option prices to swap rates.

The particular currencies involved in the deals also exacerbate the difficulty for the lead managers. The Australian dollar is a very volatile currency, capable of dramatic falls and sharp rises.

To price the redemption option, houses essentially calculate the odds of a particular movement in the relationship between the two currencies. Other houses use their own volatility assumptions to check the option pricing before deciding whether to buy the bonds.

The Australian dollar sector is additionally complicated by a heavy volume of interest payments and principal redemptions due in March. Researchers at ANZ McCaughan estimate that up to A$800m of interest and principal will be paid in March, making the sector vulnerable to investors choosing whether to reinvest in the currency.

Coupon payments tend to be treated by investors as current income and are less likely to be reinvested than the principal payments. It is possible, however, that many investors have booked their funds elsewhere by selling their currency exposure in the forward markets. If they do prove reluctant to reinvest, it will be bad news for the sector.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
BP America Inc.◆	200	1996	7	10	101¾	Morgan Stanley Int.	9.645
Yasuda Trust & Fin.HK◆	120	1999	10	10½	101.925	Goldman Sachs Int.	10.184
Ford Motor Credit◆	200	1992	3	10	101⅜	Goldman Sachs Int.	9.453
DKB Asia Ltd.◆	125	1999	10	10.4	101.9	Shearson L'man Hutton	10.090
Nissho Iwai Corp.‡	400	1993	4	(4½)	100	Nomura Int.	★
Nissho Iwai Corp.(e)◆	400	1993	4	(4½)	100	Nikko Secs. (Europe)	★
Eisai Co.◆	300	1993	4	(4⅝)	100	Nomura Int.	★
Atsugi Motor Parts◆	100	1993	4	(4⅝)	100	Daiwa Europe	★
Mitsui Bk Luxembourg◆	50	1999	10	10½	102	Mitsui Finance Int.	10.172
Skopbank◆	50	1999	10	10½	102	Nomura Int.	10.172
Royal Bk Scotland(k)◆	250	2004	15	10⅛	99¾	Merrill Lynch	10.225
CANADIAN DOLLARS							
Ontario Hydro◆	500	1999	10	10⅞	101⅛	Merrill Lynch Canada	10.604
AUSTRALIAN DOLLARS							
Kredietbank Int.Fin(d)◆	80	1990	1	20	101¾	CSFB	17.936
Svenska Handelsbanken◆	50	1991	2	18½	101⅛	Hambros Bank	15.418
Postipankki(d)◆	50	1990	1	20	101⅜	Bankers Trust Int.	18.081
Bqe Generale du Lux(g)◆	50	1990	1	20¼	101⅝	Bankers Trust Int.	18.327
D-MARKS							
Fuji Bank (Luxembourg)◆	100	1996	7	6½	101	Commerzbank	6.319
EIB◆	300	1999	10	6½	100	Trinkaus & Burkhardt	6.500
Eurofima★◆	125	1992	3	6¼	100	BHF-Bank	6.250
Mitsubishi Nederland★★◆	80	1996	7	6⅝	101½	Bk of Tokyo(Germany)	6.353
Primary In.Bk A'tralia◆	75	1992	3	6¾	101⅜	Commerzbank	6.094
Nordic Investment Bank◆	500	1999	10	6½	101⅞	Salomon Brothers	6.489
Finance for Danish Ind◆	100	1994	5	6¾	101⅞	Deutsche GZ-D.Komm.	6.301
SWISS FRANCS							
Carter Holt Harvey§◆	(a)	1994	-	5½	100	S.G. Warburg Soditic	5.500
Takada Kiko Co.(b)§★◆	40	1994	-	½	100	SBC	0.500
Chukyo TV B'casting★◆	20	1994	-	5⅝	100¼	Handelsbank NatWest	5.317
Nikkatsu Corp.★★◆	40	1994	-	5½	100¾	SBC	5.325
Godo Steel§★★	70	1993	-	(½)	100	SBC	★
KYC Machine Ind.§★★	50	1994	-	(½)	100	SBC	★
Osaka Diamond Ind.§★★	30	1994	-	(½)	100	Credit Suisse	★
Fuji Tekko Co.§★★	20	1993	-	(½)	100	B.della Svizzera Ital	★
Corus BV(f)◆◆	100	1994	-	4¼	100	S.G. Warburg Soditic	4.250
Lapine Co.§★★	35	1993	-	(½)	100	Banca del Gottardo	★
Shikibo Co.§★★	35	1993	-	(½)	100	Swiss Volksbank	★
ECUs							
EIB◆	100	1996	7	8⅞	101½	San Paolo Bank	8.581
Kredietbank Int.Fin(l)◆	60	1994	5	0	69⅞	Kredietbank Int.	7.537
STERLING							
Abbey National B.Soc.◆	100	1998	9¾	10⅝	101⅜	S.G. Warburg Secs.	10.378
Hammerson Property◆	100	2013	24¾	10⅞	98.888	Kleinwort Benson	10.751
EIB(h)◆	125	2009	20¾	9½	97¾	BZW	9.793
FRENCH FRANCS							
Rhone Poulenc Comm.Fin◆	500	1994	5	9¼	100⅛	Credit Agricole	9.057
LUXEMBOURG FRANCS							
Svenska Handelsbanken◆	300	1994	5	7⅝	100¼	BIL	7.563
YEN							
Marubeni Int.Fin.◆	30bn	1993	4	5	101½	Yamaichi Int.(Eur)	4.581
New Sth Wales Treas(c)◆	30bn	1994	5	5	101.35	Nomura Secs.	4.749
Giroz.Bk Oest.Spar.(j)◆	5½bn	1993	4	6½	101⅞	Bankers Trust Int.	6.037
Sallie Mae◆	5bn	1999	10	5	101.35	Daiwa Secs.	4.886
Bulgarian F.Trade Bk★★◆	10bn	1999	8½	5.8	100	Nikko Secs.	5.824
Ind. Dev.Bank Turkey★★◆	10bn	1997	8	6	100	Nikko Secs.	6.090
Bank of Montreal(i)◆	5bn	1993	4	6½	101⅞	Nippon Credit Int.	5.660

★Not yet priced. ★★Private placement. §With equity warrants. ‡Convertible. ◆Floating rate notes. ◆Final terms. a) Issue amount dependent on success of exchange offers. [illegible] b) Put yields 1.843%. c) First entity under shelf-registration to issue Samurai bond, under system introduced last October. d) Redemption at borrower's option in A$ or US$. e) Launched in Asia. f) [illegible] g) Redemption at borrower's option to repay in A$ or US$. h) Fungible with issue launched in November. i) [illegible] j) Redemption linked to Nikkei stock index. k) Launched on US domestic market. Note: Yields are calculated on AIBD basis.

Abbey plans to redeem £500m Eurobond

By Andrew Freeman

ABBEY NATIONAL, the UK building society which is currently seeking approval from its members to become a public limited company, intends to exercise its right to redeem a floating-rate Eurobond before its final maturity in 1991.

The £500m notes will be called at par on June 21, subject to the society's members approving the conversion process at a general meeting on April 11.

The society is also arranging for two other floating-rate issues, due in 1993 and 2000, to be modified so that their terms and conditions clearly allow the conversion to company status. Bond holders will be given an option to require redemption of the notes at par at specified dates after conversion.

Mr Gareth Jones, treasurer, said the exercise of the call option would allow a considerable saving in borrowing costs. Abbey National has been a frequent borrower on the Euromarkets this year and has achieved funds at a cost below London interbank offered rates.

● **Royal Bank of Scotland** has announced the launch of a US$250m bond issued in US capital markets. The deal marks the first time RBS has tapped the US market.

The 15-year bonds came with a 10¼ per cent coupon and were issued by lead manager Merrill Lynch Capital Markets via a specially-created vehicle, RBSG Capital Corporation. The proceeds will be used to finance the recent acquisition of Citizens Financial Group.

Krupp chief named

Fried. Krupp, the West German steel and engineering group, has named Mr Gerhard Cromme to replace Mr Wilhelm Scheider as managing board chairman on March 1, writes Our Financial Staff.

Mr Cromme is currently managing board chairman of the Krupp Stahl steel unit.

Separately, Krupp said it was in talks with Mannesmann, the engineering group, over possible co-operation in industrial plant construction.

Shake-up in Spanish bank stakes

By Peter Bruce in Madrid

A RAPID and potentially bitter reallocation of important shareholdings in two of Spain's biggest commercial banks, Banco Central and Banco Espanol de Credito (Banesto) is likely to start today following the collapse on Friday night of ambitious plans to merge the two banks.

Some 5 per cent of Banesto is at stake, and a further 6 per cent of Banco Central. In the face of unrelenting hostility to the merger, Mr Mario Conde and Mr Alfonso Escamez, the chairmen of Banesto and Central respectively, agreed on Friday to bring the nine-month long merger process to an end. Their decision had the support of the Bank of Spain, the country's central bank.

The merger would have created Spain's biggest bank with assets of $50bn. But it was fiercely opposed by Cartera Central, a joint venture between the Kuwait Investment Office (KIO) and two Spanish cousins, Mr Alberto Cortina and Mr Alberto Alcocer.

Cartera would have been the biggest shareholder in the merged bank, but as part of the agreement to end the merger, its to put its holding of around 2 per cent in Banesto on the market. Just over 3 per cent of Banesto, belonging to Mr Juan Abello, Mr Conde's estranged business partner who resigned as Banesto's vice-president on Thursday, is also up for sale.

The Bank of Spain is opposed to Banesto buying the stock directly because Banesto has been forced during the past few months to buy large amounts of its own equity to keep its share price equal to Banco Central, as required by the merger agreement.

According to reports in Madrid yesterday, Mr Conde will try to buy the stock and distribute it initially to Banesto employees and friendly clients, who would then be free to trade it on the market.

Shares in both Banco Central and Banesto were suspended on all Spanish markets on Friday and it was not clear late yesterday when trading would resume. Under the merger agreement, both banks had held their share prices equal since October and Banesto shares could fall once they are quoted again. Both were trading at Pta4,750 ($114) when the market closed on Thursday.

Banco Central's shareholdings, meanwhile, have been complicated by a decision by the KIO to sell its 48.8 per cent share in Cartera Central, its joint venture with the Albertos, who have a small controlling majority.

KIO's participation in Spanish banking has always been controversial, though the Government has restrained its irritation because of the large and welcome industrial investment the group has made in Spain since 1985. But the boardroom infighting at Banesto and the Albertos' overt attempt to stop a merger which the government had encouraged has made the Kuwaitis distinctly uneasy.

The last straw appears to have been the recent intense publicity and lurid magazine pictures surrounding the adulterous affair between Mr Alberto Cortina and the Marquesa de Cubas. KIO is run nominally from London, but observers suggest that the sensitivity inside Moslem Kuwait to such a public scandal cannot be underestimated.

Last week officials close to KIO in Spain were scathing in their criticism of the way the Albertos have handled the partnership in Cartera Central, accusing them of running the joint venture as their own and of failing to consult KIO on important policy.

Cartera Central holds just under 13 per cent of Banco Central and there have even been suggestions that the Kuwaitis might try to sell their share of this, or about 6 per cent, directly to the bank to spite the cousins. But this would be difficult, as both sides agreed when they formed Cartera Central at the end of 1987 that neither could sell its holding without the others agreement for five years.

The Albertos, who manage a construction company, Conycon, owned by their wives (who are sisters) have indicated that they would be prepared to buy KIO out and run what is the biggest shareholding in Banco Central on their own. KIO and the Albertos are likely to meet this week to discuss the transfer of KIO's $400m holding in Cartera Central.

Creditors locked in talks to save Co op

By Haig Simonian in Frankfurt

THE 120 creditor banks of Co op, the troubled West German food retailer now majority owned by four international banks, were yesterday locked in a second round of urgent negotiations to save the highly-indebted company.

Meanwhile, it emerged that Co op would have to declare bankruptcy if agreement were not reached this week. According to reports, a leaked study by the Treuverkehr accountancy group showed that Co op's accounts had a "deficit" of DM436m ($330M). If further unspecified "open risks" were included, the figure would rise to almost DM1.18bn.

German corporate law requires a company to take remedial action within three weeks of becoming aware of such a position or else declare itself bankrupt. The accountant's report was submitted on February 10, implying Co op's creditor banks have until the end of this week to agree a rescheduling.

Last week, Mr Hans Friderichs, Co op's new supervisory board chairman, cited a March 1 deadline for agreement. The supervisory board is meeting tomorrow and has already called a press conference for tomorrow, presumably to reveal its deal with the creditor banks and plans to improve profitability.

However, chances of a rescheduling accord appeared mixed yesterday after failure to agree on Friday.

At stake is the question of how to reschedule the company's huge debt, estimates of which vary from DM4.3bn to DM5.9bn. The proposals put forward by the six "pool" banks which are now co-ordinating the group's credit are thought to include a commitment to renounce certain obligations and maintain other credit lines until end 1992, a moratorium on interest and an injection of funds.

The signs on Friday were that the plans had run into stiff opposition, with a group of banks calling for greater sacrifices on the part of the six pool banks.

Threat of liquidation over Koor Industries temporarily lifted

By Andrew Whitley in Jerusalem

THE THREAT of compulsory liquidation hanging over Koor Industries, the troubled Israeli group, for the past four months has been temporarily lifted.

Bankers Trust, the company's principal foreign creditor, has told the Tel Aviv district court that it is withdrawing the liquidation request filed last October after Koor failed to repay a $20m loan.

But it has reserved the right to resubmit the request if final agreement with Koor and the Israeli bank creditors is not reached by April 13.

The lifting of the court case against Koor clears the way for the Israeli Treasury to pump new equity into the company. Koor has asked for at least $30m of the $50m to be provided by the Government to be disbursed immediately, on the grounds that it is 60 per cent of the way through its recovery programme.

The decision also enables the Israeli banks to resume normal lending to Koor subsidiaries, whose operations have been severely affected by a shortage of working capital.

Heads of the steering committee of foreign and local banks involved in the Koor crisis are to meet in Tel Aviv this week to tackle the two outstanding issues holding up the signing of a creditors' agreement.

These are the extent of the foreign creditors' authority in supervising Koor's recovery, and a demand by the foreign banks that the debts of the group's subsidiaries will carry the same guarantees as those of Koor Industries itself.

On Friday, a senior Koor executive vigorously denied local press reports that the group had offered to sell 50 per cent of its 93 per cent equity stake in Tadiran, its most important subsidiary, to General Dynamics. The book value of Tadiran, an important consumer and defence electronics company, is estimated at $240m.

APV courts Scholey on SEN takeover bid

By David Goodhart in Bonn

A COMPLEX cross-border takeover dispute between Klöckner-Werke, the West German steel and capital goods group, and APV, the aggressively internationalising UK-based food-processing machinery group, could be resolved in APV's favour by the intervention of another British company, British Steel.

Klöckner has been resisting APV's attempt to acquire a majority stake in Seitz Enzinger Noll (SEN) which along with Holstein & Kappert (H&K) dominates the European bottle-filling machinery industry. Klöckner holds 50.1 per cent of SEN and wants to merge it with H&K, which is a wholly-owned Klöckner subsidiary.

APV has taken a Cartel Office-approved 40 per cent stake in SEN, which is enough to block a formal merger between SEN and H&K, although some observers think Klöckner could gradually implement a *de facto* merger.

At the annual shareholders meeting in early February, Klöckner struck back by ousting two members of the supervisory board who supported APV's expansionist plan for an independent SEN and refusing to accept Mr Kraijenhoff, chairman of Akzo, the Dutch chemical group, as an APV representative on the board.

However, Mr Herbert Gienow, chief executive of Klöckner-Werke, did promise that he would not use his casting vote to implement a merger or create big job losses.

The situation currently remains deadlocked. APV has promised that if allowed a majority stake it would integrate SEN products into its international sales network, transfer work to SEN from other APV factories, make SEN the APV centre for research and development in bottle-filling, and make SEN's Mannheim office the APV central Europe headquarters.

The company has also said it could expand SEN's annual sales from DM400m to DM500m ($27.5m) and move it from break-even to a return of 7 per cent on sales.

For those reasons APV has the support of the SEN unions and most of the management board.

It is also thought to have the support of Deutsche Bank which is both house bank to Klöckner-Werke and owner of Klöckner & Co, the trading group with an 18 per cent stake in Klöckner-Werke, which had to be rescued by the bank at the end of last year after heavy losses in oil forward contracts.

British Steel has expressed an interest in buying Klöckner & Co from Deutsche Bank and, although talks are still at a relatively early stage, such a development could tip the SEN dispute in APV's favour. Sir Ronald McIntosh, chairman of APV, confirmed that he has been in touch with with Sir Robert Scholey, chairman of British Steel, about the SEN battle.

Mr Gienow is known to be hostile to a British Steel takeover of Klöckner & Co, both because it could give a rival steelmaker a large stake in Klöckner-Werke and because it would leave British Steel in charge of distributing Klöckner-Werke's steel.

Recently Sir Ronald has been making conciliatory gestures towards Mr Gienow and has said that while APV control is the preferred option, even without it SEN could use APV's sales network.

Talks between the two men are expected soon at which Sir Ronald is likely to make a generous offer for a further slice of SEN equity.

Although agreement is possible, both sides still seem far apart and Klöckner-Werke is less in need of extra cash following a boom year in the steel business.

Mitsubishi Finance issues JGB futures warrants

By Katharine Campbell

MITSUBISHI Finance International is today launching a total of Y140bn worth of warrants based on Japanese government bond (JGB) futures, one of the largest ever warrant packages.

The issue comes in three parts, of which the largest component is made up of five series of conventional warrants of up to 100 puts and 100 calls on the June contract of the JGB future, which is traded on the Tokyo Stock Exchange.

Put buyers expect the price of the future to fall, whereas call buyers hope it will rise. The warrants are American style, which means they can be exercised at any time up to expiry, which is May 9, 1989.

The rest of the issue is made up of a series of "average" and "look back" warrants. Whereas average options have been designed in the currency markets, this is the first time they have been tried with JGBs.

Here, a call buyer receives the right to the difference between the average price of the JGB future over the life of the warrant and the strike price, which is set at today's Tokyo closing price. A put buyer receives the difference between the strike and the average price. These average warrants are cheaper than the conventional kind, about 58 per cent of the premium, according to Mitsubishi.

On the other hand, look-back warrants, of which the firm has issued previous series, are twice as expensive as the conventionals. They offer the investor the luxury of "looking back" over the period and exercising at the most favourable price with the benefit of hindsight.

Mitsubishi is left with the tricky part of hedging its exposure. There is no JGB listed option, so the firm has to manage with the JGB future.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Parallels in Fed discount moves

THERE WERE some uncanny similarities between last Friday's discount rate hike and the last time the US Federal Reserve raised this rate, which is something of an obsession with politicians and financial markets and has precious little influence on monetary conditions.

On both occasions, the discount rate was raised after a series of tightening moves had already taken place in the money markets, where the Fed funds rate is the main tool of policy and feeds through directly to the broader structure of short-term interest rates.

The Fed had tightened policy on successive occasions in December and January before finally moving the discount rate to 7 per cent last Friday. The August discount rate move came after a series of tightening moves which had begun in August, 1988.

On both occasions, Mr Alan Greenspan, Fed chairman, made it clear that he was not uncomfortable with the ever-widening spread between the discount rate and the Fed funds rate.

He gave a clear exposition on this subject in his Humphrey-Hawkins testimony to Congress last week, saying that open market intervention was the preferred method of controlling monetary conditions and that, although the spread was substantial, it was still not as large as it had been in the early 1980s.

Mr Greenspan has not had much luck in persuading financial markets or politicians that the discount rate is not particularly important, and it remains the ultimate symbol of Fed policy.

On both occasions, the move in the discount rate had followed mounting scepticism in financial markets about the Fed's political independence from the Administration (in the former case, a Reagan Administration on its way out, and recently the newly-arrived Bush Administration).

Last autumn, the conventional wisdom had been that the Fed would at all costs avoid a politically damaging hike in the discount rate, even after July's alarmingly strong employment figures were released, because of the proximity of the election.

Once that view was widely aired, Mr Greenspan could not, without losing his credibility, avoid moving the discount rate.

The same was true of recent events. A discount rate rise became inevitable on Valentine's Day, when President George Bush told the world that he was not overly concerned about inflation and rejected any further boost to interest rates.

Mr Greenspan duly raised the Fed funds target to show that the Fed did not share this irresponsible attitude towards price pressures.

The chairman was then under considerable pressure to follow actions with words in last week's Humphrey-Hawkins testimony. He duly did, delivering aggressive warnings on inflation.

At the same time, Mr Greenspan revised upwards the Fed's 1989 inflation projection and the market once again clamoured for action.

They got it with a second rise in the Fed funds target last Thursday and the discount rate increase on Friday. The publication of figures showing a 0.6 per cent rise in consumer prices in January, which followed the announcement of a 1 per cent rise in producer prices, gave the Fed clear justification to raise its official rate when it did.

What remains unclear is whether there was finally a majority on the board of Fed governors in favour of the move because of the consumer prices data or whether the central bank was forced to act by falling financial markets and, particularly, a rapidly weakening dollar.

Dollar weakness must have been a crucial component of the decision. For months now, the Fed has been given some flexibility because the US currency has been in demand. Any hint that the mood of the currency markets has changed is very worrying indeed.

Over the weekend in overseas markets, the dollar was steady at around its lows in the US on Friday but no weaker.

Last week's barrage of Fed moves still leaves a great many questions to be answered.

The first is whether the US moves last week will lead to a series of rate rises in Europe and whether the dollar will hold steady in spite of them.

There was a great deal of speculation at the end of last week that the Bundesbank will raise official rates at this Thursday's council meeting.

Secondly, will the latest two increases in the Fed funds target to around 9¾ per cent start really to slow the economy down? Everyone will have to wait and see but there are likely to be further market jitters before any real evidence emerges.

This week sees the publication of the first revision of fourth-quarter gross national product. The consensus forecast is for GNP to be revised higher to growth in the final quarter of 2.3 per cent compared with 2.0 per cent in the preliminary release, although several analysts are predicting a much larger revision.

The consensus of opinion after the discount rate rise was that the Fed funds target will have to rise a touch further to slow the economy down. However, nobody believes that any further firming is going to be dramatic.

Mr Greenspan said last week that monetary policy was about on track and that was before the latest hike in the Fed funds target.

It may well be that the the Fed believes that monetary policy is now just ahead of inflation.

The outlook for the bond market remains uncertain. Despite the very sharp rise in short-term interest rates over the last two weeks and the discount rate hike, the yield on the Treasury's benchmark long bond still remains within a 8¾ and 9¼ per cent trading range in place since the beginning of last September. The yield closed last Friday at 9.18 per cent.

The yield curve became more inverted last week with the spread between two- and 10-year maturities widening from minus 17 points to minus 25 basis points and the spread between Fed funds and the 30-year widening to minus 63 basis points on Friday from an average of minus 14 basis points during the first quarter of 1989.

Economists at Drexel Burnham Lambert believe the curve could invert by another 20 basis points as the short end of the curve adjusts itself to the reality of the cost of funds and long yields remain supported below 9¼ per cent.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.77	9.31	9.08	9.77	6.27
Three-month Treasury bills	8.67	8.76	8.48	8.86	6.21
Six-month Treasury bills	8.71	9.02	8.78	9.05	5.74
Three-month prime CDs	8.90	9.55	9.25	9.55	6.77
30-day Commercial Paper	9.62	9.30	9.00	9.30	6.65
90-day Commercial Paper	9.72	9.45	8.05	9.72	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98 31/32	-¼	9.45	9.25	9.10
20-year Treasury	100 13/32	-¾	9.31	9.15	8.97
30-year Treasury	96 11/32	-13/32	9.18	9.04	8.88

Source: Salomon Bros (estimates).

Money supply: In the week ended February 13, seasonally adjusted M1 fell $3.2bn to $784bn

NRI TOKYO BOND INDEX

December 1983 = 100	Performance index: 16/2/89	Average yield† (%)	Last week	12 wks ago	26 wks ago
Overall	148.58	4.64	148.49	147.73	143.33
Government Bonds	149.16	4.37	149.21	149.17	143.55
Municipal Bonds	150.96	4.86	150.69	149.14	145.26
Govt.-guaranteed Bonds	152.07	4.90	151.85	150.12	146.84
Bank Debentures	141.72	4.60	141.51	140.73	137.26
Corporate Bonds	148.79	5.39	148.62	146.52	144.26
Yen-denom. Foreign Bonds	152.85	6.11	152.75	149.92	146.90
Government 10-year†	4.88		4.88	4.82	5.23

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Concern on inflation leads retreat

THE GILT-EDGED securities market found itself somewhere between a rock and a hard place last week and it did not like it. The fall in the pound was enough to remind the market that economics does matter.

Whether or not the pound's fall will prove temporary is still not clear. Turning points are, however, often seen after rather than at the beginning of the period of transition.

The gilt market retreated significantly last week. The fall in long-dated gilts would probably have been greater but for the Bank of England's aggressive buy-in of stock (variously estimated at between £500m and £1bn).

Inflation is the key concern and that can be exacerbated only by an untimely fall in the pound. The Chancellor sought to reassure markets on interest rates and the Budget, though he did not say anything about the pound, possibly because he was not asked.

In any event, 2 per cent of currency tightness was given up by last week's fall in the pound, and this at a time of expectations of rising inflation and the need felt by some to keep policy tight for a period long enough to influence wage bargainers later in the year.

The message on interest rates, however, seems to rule out a post-Budget cut in rates and suggests that a rise in rates is not being contemplated or seen as necessary. In terms of a cut in rates, the market consensus has moved the time horizon out to the late spring.

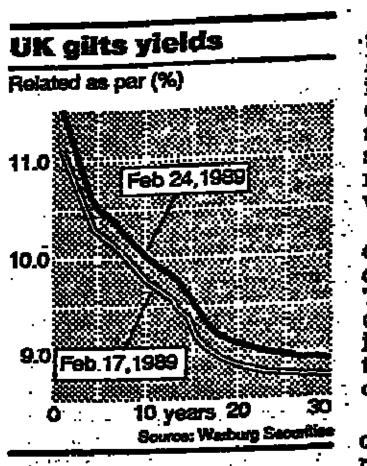
It was always on the cards that at precisely the time when evidence was mounting that the economy is slowing, the pound would crack. Few, however, predicted that this would happen at the same time as a generalised tightening in monetary policy worldwide.

Indeed, many of the signs are pointing to quite a rapid slowdown in domestic activity in response to the monetary tightening of last summer/autumn. The Bank's weekly banking report underlined this – with M0 growth 7 per cent or lower in February, down from 8.1 per cent in January.

Wednesday's January trade figures will prove a test in the short term for sterling, but developments internationally, which are not propitious, might be more meaningful.

Last week's tightening by the US Federal Reserve and the possibility of another rise in West German interest rates could make the maintenance of sterling at current levels difficult to sustain. The outcome of the Bundesbank's council meeting on Thursday will be closely watched.

With the erosion of interest rate differentials taking place, together with the second thoughts creeping into the minds of international investors concerning the so-called "high yielding" currencies, sterling now appears vulnerable to just about everything. The upward move in interest rates abroad could not have come at a worse time for the UK authorities.



● At the request of the Gilt-Edged Market Makers Association, the Bank of England agreed to attend a meeting of market makers which will take place tonight.

On the agenda is how the Bank will conduct reverse auctions for gilts in future and more general issues relating to the buy-in programme and possibly the future for the structure of gilts in issue. It is unlikely that the three Bank executives planning to attend the meeting will adopt much more than a passive role, however, and listen with interest.

Kleinwort Benson floated an interesting idea in its weekly report: a "drain" to replace the now moribund "tap" system.

As the tap system worked by the market knowing what the Bank wanted to sell and pricing that stock relative to others near it on the yield curve, so a "drain" would work in the same way if the market knew a number of the stocks the Bank was interested in redeeming.

A similar system of pricing of the target stocks and those others near it would evolve. The Bank would be under no compulsion to buy, especially if the target stocks traded at too high a premium relative to other sectors of the market.

The Bank's current method of buying in is seen by some to resemble a random walk. A clear method with some broadly defined ground rules could remove that uncertainty.

Another idea doing the rounds is the consolidation of a number of like gilts into one large issue. This has apparently found some favour with the large institutions.

How could it work? Take the 2003/05, the 2003/07 and the 2004/08 stock in issue and create a mega-issue of 12.25 per cent 2003s. This stock would have similar characteristics, in terms of duration, maturity and coupon, to its constituents. The financing cost to the Treasury, except for administration, would be minimal. Alternatively, offer attractive conversion terms on two of the above into remaining stock.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
A.B.N. 8½ 91	150	96½	-⅛	10.57
AETNA LIFE & CAS 7⅛ 16	200	92¼	-⅛	8.49
AHFC O/S FIN. 11¼ 94	300	100⅝	-¼	11.56
ALBERTA PROVINCE 7⅛ 91	750	93½	-⅛	10.11
ALBERTA PROVINCE 9⅝ 95	600	97¾	-⅛	9.96
ALCOA AUSTRALIA 11 92	80	99⅝	-⅛	11.10
AMERICAN GENERAL 9⅛ 95	100	98⅞	-⅛	9.98
AUSTRALIA 11¼ 90	100	101	-⅛	10.49
[illegible]				

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6⅝ 93	20.00N	104¼	-⅛	5.56
AVON CAPITAL 6⅝ 92	26.00N	101	0	6.36
BARCLAYS O/S INV 6 96	40.00N	104¼	-⅛	5.24
B.F.C.E. 5⅜ 96	20.00N	103	-⅛	5.25
CANADIAN PACIFIC 6⅝ 96	10.00N	106⅛	-⅛	[illegible]
[illegible]				

Sections of this service also printed: other currency straights (D-Mark, Swiss franc, Canadian dollar, ECU, Australian dollar, Sterling), floating rate notes, convertible bonds, equity warrants and bond warrants. [illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. [illegible] CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on FEBRUARY 23

Harry Oppenheimer to step down from Minorco board

By Philip Coggan

MR HARRY Oppenheimer, the South African businessman, will step down in May from the board of Minorco, the Luxembourg-registered investment group which is bidding £3.2bn for Consolidated Gold Fields, the diversified mining company.

A letter accompanying Minorco's offer document, sent to Gold Fields shareholders yesterday, reveals that six directors of Minorco are stepping down from the board.

In his letter, Mr Julian Ogilvie Thompson, Minorco's chairman says that the board is being restructured to reduce the representation of Anglo American and De Beers, the twin pillars of the Oppenheimer business empire. Anglo American and De Beers currently own 60 per cent of Minorco's equity.

As well as Mr Oppenheimer, Mr Sidney Spiro, a De Beers board member and Mr Neil Clarke, a former chief executive of Charter Consolidated where Minorco owns 36 per cent are leaving the board.

The three other directors to depart are Mr John Abell, Mr Robert Clare and Mr Louis Marx. However, there will still be an Oppenheimer on the Minorco board. Mr Nicholas Oppenheimer, Harry's son, is joining as a non-executive director.

Minorco launched a renewed bid last week, having had its offer cleared by the Monopolies and Merger Commission.

The offer document makes clear that there will be no full cash offer for Gold Fields. The current Minorco offer, one of its shares and £20.50 in cash for every two Gold Fields shares, is worth around 1412.5p per Gold Fields share.

Minorco still faces a hurdle in the form of a US court injunction which forbids it to purchase any Gold Fields shares. It already owns 29.6 per cent of Gold Fields equity.

Sir Michael Edwardes, Minorco's chief executive, said that last week's Gold Fields interim figures, which showed pre-tax profits of £137.7m "highlighted the fundamental weakness of Gold Fields' financial structure. In particular, shareholders should note the good overall performances of businesses which Minorco will retain and the derisory return on Gold Fields passive investments which Minorco will sell".

Further tactical move at Unilever

By Christopher Parkes, Consumer Industries Editor

UNILEVER has made a further tactical acquisition to reinforce its leading position in the world toiletries market.

Unichema, part of the Anglo-Dutch multinational's speciality chemicals division, has bought a 90 per cent stake in Glyco Iberica, a private Spanish manufacturer of raw materials for the cosmetics and pharmaceuticals industry.

Glyco, which employs 40 people near Barcelona, last year turned over Ptas500m.

The purchase reflects Unilever's concern with tactical moves to fill gaps in its geographical, technical and distribution range.

Spain will now be added to Unichema's existing tally of oleochemicals production centres in the UK, the Netherlands, West Germany, the US, Australia and Malaysia.

Earlier this month Unilever bought the Fabergé perfumes and cosmetics business in a strategic move which almost doubled the size of its personal products interests.

Other tactical buys in the past few months have included moves into small companies in seed breeding for its agribusiness division, and bakery supplies for its developing interest in supplying fast food caterers.

Goodman buys more Berisford

By Clare Pearson

MR LARRY Goodman, chairman of the private Irish meat processing company Goodman International, has been buying more shares in Berisford International, the sugar processing and commodities group formerly called S&W Berisford.

He now holds 7.4 per cent of the equity, having topped up a 6.9 per cent holding which was revealed early this month.

Although Mr Goodman has not clarified his motives, he is seen by many City observers as supportive of Berisford.

Berisford has also recently come under fire from Associated British Foods, which has 24 per cent of its shares, about its indirect involvement in a $600m (£342m) bid for Universal Foods of the US.

ABF has complained to the Stock Exchange about lack of information on the deal.

COMPANY NEWS IN BRIEF

COSALT has purchased Raven of Barnsley for £675,000 cash. Raven makes workwear, and in 1988 earned profit of some £160,000 before tax, exceptional items and bonus. Net tangible assets at December 31 were £306,000.

SHELDON JONES: turnover £6.95m (£6.06m) and pre-tax profit £112,000 (£80,000) for six months to November 30 1988. Earnings 1.52p (0.37p) and interim dividend again 1.35p.

EXCALIBUR GROUP has paid £800,000 deferred consideration for PMC (Sheffield), acquired in July 1988. The consideration is to be satisfied by the issue of 1,113,197 ordinary, 513,197 of which are being retained by the vendors.

SCOTTISH INVESTMENT Trust: net asset value was 177.4p at January 31, against 165.5p at October 31 1988. In three months to January 31 pre-tax revenue ahead 71 per cent to £3.68m (£2.16m).

DEWEY WARREN: offers for issued capital and loan stock of Argyle Trust accepted in respect of 20,890,437 ordinary shares (93.8 per cent) and £2,937,731 nominal Argyle loan stock (96.4 per cent).

VANTAGE SECURITIES: for 1988 it is proposing final dividend of 2.4p (2p) making 3p (2.6p), from earnings of 3.05p (2.75p). Gross income £191,000 (£163,000). Net asset value 108.7p (97.9p) at year-end.

House Property suspended

Shares in House Property Company of London, the small property company chaired by Mr Bob Baldock, the Australian entrepreneur, have been suspended. A reverse takeover of the group is expected to be announced early this week.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Allied Restaurants, Armitage Bros, Manganese Bronze, Thorntons.
Finals- Appleyard, BPP, Bensons Crisps, Commercial Bank of Near East, Cooper (Alan), EFT, Norton, Porvair, Sedgwick, Serco, Suter, UTC, Updown Inv, Wates City of London Props.

FUTURE DATES

Interims-	
Cala	Mar. 6
Highpoint	Feb. 28
Wolseley	Mar. 22
Finals-	
ASD	Mar. 16
Associated-Henriques	Mar. 1
Bank of Ireland	May. 18
Bluebird Toys	Mar. 7
CRH	Mar. 8
Carbo	Mar. 15
Greenwich Communications	Feb. 28
Heath (CE)	Jun. 14
Ladbroke	Mar. 9
Laing (John)	Mar. 23
London & Metropolitan	Mar. 21

A turbulent market that defies gravity

Vanessa Houlder looks at the sometimes treacherous computer distribution business

COMPUTER distribution can be a treacherous business. Less than a year ago, MBS was one of the mightiest microcomputer distributors in Europe and was confidently expected to double its profits to £11m in 1988.

On Friday, a battered and emaciated MBS announced the departure of its chief executive and disclosed that it had probably made a loss in 1988.

It was a stark reminder of the turbulent and changeable nature of the PC distribution market. All the more so, because it bore a certain resemblance to events of 1985. Then, a period of expansion had likewise coincided with a price war and the company plunged into the red with borrowings of £17m.

MBS's misfortunes mark the failure of the rescue plan drawn up by two IBM directors who joined the company at the end of 1985. Ironically, MBS's most recent downfall resulted from the shifts of policy of their former employer.

Most damaging was IBM's decision at the end of 1987 to increase the number of its UK distributors from two to eight. Margins were drastically eroded and in July, MBS closed its IBM PC distribution business, which had been the largest in the UK.

But IBM has not been alone in disrupting the personal computer market. The recent disastrous performance by Amstrad, shifts in the balance of power between dealers and distributors and, more recently, changes in the European market place before 1992 make the PC distribution business one of the least predictable around.

Not surprisingly, MBS is not the only sufferer. Similar difficulties afflicted the distribution business of USM-quoted Norbain Electronics, which it sold last August. Another casualty on the USM was Personal Computers, which after moving into the red, was taken over by P&P, the largest player, for £11.5m earlier this month.

Predictions about the future course of this shake-out vary widely. The questions that bedevil the forecasters concern the scale of a likely price war in the sector and the differing effects this will have on distributors.

This issue has been given added force by worries about Northamber, the second largest distributor, which has seen brokers' forecasts cut from £7.5m to £6.6m in recent weeks. That has accelerated the fall in its share price which has shed a third of its value since last October.

The concern about MBS and Northamber has prompted a dismal view of the industry's prospects. Mr Peter Golob of Warburg Securities foresees a large-scale upheaval during which even the best-placed players, such as Northamber, will be hurt. "It is a market defying gravity," he says.

Mr Ian McLeod of ANZ McCaughan agrees that the market will be extremely competitive this year. Price cuts by manufacturers will result in a 10 to 15 per cent increase in the value of distributors' turnover this year, compared with 30 to 50 per cent last year, he predicts.

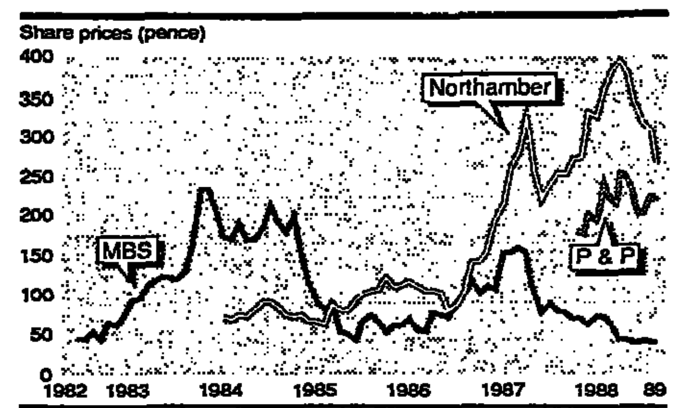
The delays in the delivery of Amstrad's new range of high performance PCs have provided an added headache for distributors. Originally due a year ago, they are now expected in the middle of 1989.

But not everyone concurs that this will be a year of bloodshed. Mr David Phillips, chairman of Northamber, does not expect 1989 to see more turmoil than any other year.

His confidence stems to a large part from IBM's announcement this week that it was dropping the dealer price of its top selling model 30 systems. The result, believes Mr Phillips is that IBM systems will be able to fill the gap left by the late delivery of the Amstrad machines.

Mr David Southworth, managing director of P&P, thinks that conditions are unlikely to worsen. "Everyone thinks we have a new problem. We have not," he says.

He predicts that volumes will increase by 20-30 per cent this year and margins will be buoyed by manufacturers such as IBM and Compaq which are aiming to increase the price per box.



Nonetheless, Mr Southworth believes that this will be a testing year. "Many companies have increased overheads to a level where they cannot sustain margins. People panic and go for volume without profit."

The upshot, accordingly to Mr Southworth, is that several companies will go to pieces and will be mopped up by the larger players. P&P is well placed, he argues, because its emphasis on added value - from training, installation, networking and maintenance - will help it increase margins and market share.

The importance of adding value is echoed by other companies. Logitek, for example, which joined the market two years ago, is determined to build up its maintenance and training activities. Nonetheless, analysts hark back to the experience of MBS, which shows that high margin services offer little protection if the underlying distribution operations suffers.

The prospect of the consolidation of the market raises some intriguing problems. Chief of these is the relationship between the distributors - which sell to dealers - and the dealers, which are usually small high street operations selling direct to consumers.

The argument centres on companies which combine a dealer business with a distribution business. Inevitably, this provokes suspicion among customers that the distributor is using knowledge about their businesses to further its dealer operations.

The demise of MBS's distribution business is partially blamed on the conflict arising from the fact it is also Europe's largest PC dealer. Now, people wonder, will P&P - which has a dealer arm as well as a distribution arm - find it has made the same mistake ?

Reservations about P&P's policy do exist and some dealers will not buy from them on the grounds that they are opening up their customer books to a rival. Such is the view of Systems Reliability, which acquired Fletcher Dennys, the loss-making computer dealer, last March. "As a matter of principle, we do not like dealing with companies that are wearing two hats," says Mr Michael Teacher, chairman.

For the most part, however, P&P has convinced the industry that its worries are groundless. Its dealer operations are confined to big corporate clients and so do not conflict with its distribution operations, where it sells solely to small customers. Even so, Mr Southworth is the first to admit that the relationship between dealers and distributors is in a state of flux.

Much of the responsibility for this lies with IBM. Following the carnage last summer, IBM decided to phase out its distribution agreements and instead give its dealers around the country greater discounts.

With the greater maturity of its dealer network and the increasing number and complexity of IBM products, the new system made more sense from a marketing viewpoint, it said. It also brought it in line with other manufacturers such as Compaq.

Mr Phillips of Northamber plays down the significance of this change. Volume discounts mean that Northamber's advantage over small dealers has not been eroded, he says.

But among the dealers the decision has come as a big relief. Systems Reliability, for example, complains that the previous system was unfair in that it allowed distributors to undercut dealers in the end user market.

P&P also welcomed the changes. "It has cleaned up the market. It has given clear channels of distribution where before there were mists and clouds," said Mr Southworth.

Further changes to the distribution market are underway according to Mr Southworth. One incentive for this, he says, is the growing popularity of systems using products from several manufacturers. This is prompting manufacturers such as IBM and Hewlett-Packard to launch joint-ventures with P&P in marketing to potential customers.

Other changes are being triggered by the approach of 1992. The abolition of trade barriers is forcing the manufacturers to think more internationally, as cross-boundary mergers among their customers make their domestic markets less secure.

Accordingly, companies such as Hewlett-Packard are pressing to move their distribution onto a pan-European basis by the end of the year. That, says Mr Southworth, means that P&P is looking to forge European alliances.

National differences in the relative importance of distributors and dealers will make European integration a complex business. But already, some French players have acquired or set up operations in the UK. Unless UK distributors respond, the goal posts seem likely to be moved yet again.

Eleco welcomes share buy

By Clay Harris

A SMALL cloud over the independence of Eleco Holdings has been dissipated with the purchase of a 16 per cent stake in the building products and property development group by four pension funds run by Mercury Asset Management.

The disposal by Strategic Investments lifts the total of Eleco shares under MAM's discretionary management to 20.6 per cent. It was welcomed by Mr Michael Webster, managing director of Eleco.

Strategic bought most of the holding from Whitecroft which unsuccessfully bid for Eleco in 1986.

FT Share Service

The following security was added to the Share Information Service in Saturday's edition:
Sumitomo Bank (Section: Banks).

FINANCIAL TIMES STOCK INDICES

	Feb. 24	Feb. 23	Feb. 22	Feb. 21	Feb. 20	Feb. 17	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.08	88.13	88.31	88.78	89.04	89.08	91.43	86.18	127.4	49.18
Fixed interest	98.48	98.41	98.54	98.48	98.53	98.55	98.67	94.14	105.4	50.53
Ordinary	1663.4	1660.7	1673.7	1696.0	1696.9	1678.1	1714.7	1349.0	1926.2	49.4
Gold mines	169.2	163.6	162.4	158.7	157.2	154.7	312.5	154.7	734.7	43.5
FT-Act All Share	1050.47	1048.43	1055.94	1068.07	1069.39	1058.89	1082.84	870.19	1238.57	61.92
FT-SE 100	2019.5	2016.6	2033.7	2061.0	2065.8	2042.9	2096.2	1694.5	2443.4	986.9

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	45.58	46.07xd	49.00	5.59	40000
Gilts & Fixed Int	6	114.30	114.30	121.30	8.24	40001
High Inc Equity	6	127.30	130.30	138.60	4.29	40002
Worldwide Bond	6	125.30	165.30	196.50	4.94	40003
Capital Growth						
American Growth	6	155.50	157.50xd	167.50	1.31	40004
Asian Pacific	6	81.46	81.46	87.13	1.24	40005
Assets & Earnings	6	153.40	153.40	164.10	2.41	40006
Capital Reserve Acc	0	83.28	83.28	83.29	4.80	40007
Comdty & Energy	6	94.26	94.26	100.90	0.00	40008
1992 Enterprise	6	53.27	54.33	57.79	3.11	46597
European Capital	6	76.30	76.30	81.61	0.92	40009
General	6	167.70	170.80xd	181.60	2.48	40010
Japan	6	106.90	108.80	115.70	0.00	40011
Mastertrust	6	78.74	78.74	84.22	1.75	40012
UK Growth Acc	6	194.10	194.10	207.60	1.64	40013
UK Growth Dist	6	130.30	130.30	139.40	2.45	40014
US Emerging Cos	6	45.77	47.32	50.34	0.00	40015
Income & Growth	6	278.50	284.90	303.00	3.14	40016
Ethical	6	47.33	48.50	51.59	2.42	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	5¼	42.46	42.46	45.17	1.79	40022
Australian	5¼	22.13	22.13	23.56	1.22	40024
European	5¼	51.86	51.86	55.17	0.00	40025
Extra Income	5	41.58	41.58	44.14	5.02	40021
Fund Inv Tst	5	115.1	115.1	122.5	2.42	40100
Do Accum	5	175.5	175.5	186.7	2.42	40101
Gilt & Fixed Int	5¼	21.99	21.99	23.40	10.03	40025
Global Income	5¼	38.87	38.87	41.35	4.49	40027
Income & Growth	5¼	70.73	70.73xd	75.25	3.84	40029
Japan	5¼	178.2	178.2	189.6	0.01	40031
Nth Amer Inc (z)	5	26.09	26.09	27.69	3.99	40019
Special Situations	5¼	69.77	69.77	74.22	0.99	40032
UK Growth	5	35.53	35.53	37.71	2.60	40102
World Grth	5	45.28	45.28	48.06	0.47	40030
Formerly Sentinel Funds Management Ltd						
American Majors	5¼	59.55	59.55xd	63.57	1.82	41374
Amer Tech & Gen	5¼	100.0	100.0	106.8	0.00	41375
European Growth	5¼	35.71	35.71	38.12	0.00	41376
European Income	5¼	51.43	51.43	54.90	1.93	41377

[illegible]

Provident Mutual Unit Tst Mgrs Ltd
25-31 Moorgate, London, EC2R 6BA.

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's
PM Equity Gth	5	115.3	117.5	124.9	2.86
PM Income & Gth	5	103.7	105.4	112.1	4.25
PM Nth Amer Gth	5	46.61	46.61	49.58	1.52
PM European Gth	5	46.21	46.21	49.15	0.90
PM Japan Gth	5	80.46	80.61	85.75	0.29
PM Overseas Gth	5	49.96	49.96	53.14	0.89

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Windsor Trust Mngrs Ltd (1200)F

83 Kingsway, London, WC2B 6SD 01-405 8331

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Comm'l & Equity	5	63.33	65.82	70.02	3.80	40199
European	5	56.85	57.45xd	61.32	0.59	40303
Far Eastern	5	34.93	34.96	38.47	1.16	40304
Growth	5	88.28	91.87	97.74	1.63	40100
Income	5	81.41	83.34xd	88.66	3.74	40101
Property Share	5	54.32	55.32	58.84	1.28	40102
Smaller Co's	5	59.57	62.57	66.57	1.58	40103
Formerly RBC Trust Managers Ltd						
Windsor Sel Gth Acc ♦	5	64.09	64.09	68.55	1.09	40206
Windsor Select Inc ♦	5	67.86	67.86	72.58	3.39	40207
Windsor Sel Inc Acc ♦	5	72.83	72.83	77.89	3.39	40208
Windsor N&I Amer ♦	5	51.91	51.91	55.52	1.83	40209
Windsor Intl ♦	5	40.55	40.35	43.37	1.46	40210

Wright Seligman Fund Mngrs Ltd (1800)F

11 Bloomfield St, London EC2M 7AY 01-588 0592

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth	5	94.26	94.26	98.26	3.90	40404

Weekly dealing day Tuesday

The Yorkshire Unit Tst Mngrs Ltd (1100)F

Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Yorkshire General	5¼	60.95	63.28	67.23	3.10	40185
YUTM UK Eq Inc Tst	5¼	59.71	61.67	65.61	4.52	40186
YUTM Intl Gwth Tst ♦	5¼	46.05	46.05	49.32	1.13	40185

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Int'l Expt Feb 15 1420.8 1445.3 — 40105

Cent. Bd. of Fin. of Church of England‡‡

2 Fore Street, London EC2Y 5AQ 01-588 1815

Inv Fund Jan 31	472.4x		4.71	40251
Fxd Int Sec Jan 31	143.75		9.95	40252
Deposit Jan 31	100.00		12.45	40253

Charities Official Invest. Funds‡‡

2 Fore Street, London EC2Y 5AQ 01-588 1815

Income Jan 31	459.32		4.47	40258
Accum Jan 31	1500.47		—	40259

Edinburgh Fund Mngrs PLC

Exempt Funds

American Feb 22	121.5	124.8	1.81	40368

Allied Dunbar Assurance Plc

Allied Dunbar Ctr, Swindon SN1 1EL 0793 514514

	Bid Price	Offer Price	Yield Gross	City-line
Fixed Int. Dep. Acc	255.2	268.7	—	41723
Equity Acc	803.9	846.3	—	41724
Property Acc	482.1	507.5	—	41725
Far East Acc	195.8	206.2	—	41726
European Acc	20.2	21.3	—	41727
Managed Acc	637.3	670.7	—	41728
Managed Cap	363.1	382.3	—	41729
O'seas Earnings Acc	327.3	345.8	—	41730
Gilt Edged Acc	315.0	331.6	—	41731
American Equity Acc	395.2	416.0	—	41732
American Mon Acc	184.4	194.2	—	41733
American Prop Acc	134.6	141.7	—	41734
Pen. F.I. Dep. Cap.	280.7	295.5	—	41735
Pen. F.I. Dep. Acc.	475.8	500.9	—	41736
Pen. Prop. Cap.	568.5	597.9	—	41737
Pen. Prop. Acc.	1083.1	1139.1	—	41738
Pen. Man. Cap.	782.4	823.6	—	41739
Pen. Man. Acc.	1464.0	1541.1	—	41740
Pen. Gilt Edg. Cap.	313.9	330.5	—	41741
Pen. Gilt Edg. Acc.	480.1	505.4	—	41742
Pen. Eq. Cap.	1278.4	1345.7	—	41743
Pen. Eq. Acc.	1815.0	1908.5	—	41744
Pen. Am. Eq. Cap.	125.1	131.7	—	41745
Pen. Am. Eq. Acc.	149.4	157.3	—	41746
Pen. Far East Cap.	233.5	245.8	—	41747
Pen. Far East Acc.	279.1	293.8	—	41748
Pen. Euro Cap.	22.6	23.8	—	41749
Pen. Euro Acc.	24.3	25.6	—	41750
Pen. B.S. Acc.	518.4	544.4	—	41751
Pen. B.S. Cap.	314.3	330.1	—	41752
Pen. D.A.F. Acc.	364.0	364.0	—	41753
Pen. D.A.F. Cap.	247.7	247.7	—	41754
Pen. Mortgage Cap.	140.4	147.8	—	41755
Pen. Mortgage Acc.	167.8	176.7	—	41756
Pen Eqs Cap	26.7	28.2	—	46176
Pen Eqs Acc	27.5	29.0	—	46177
Pen Am Eq Cap	27.6	29.1	—	46178
Pen Am Eq Acc	28.4	29.9	—	46179
Pen Far East Cap	28.8	30.4	—	46180
Pen Far East Acc	29.7	31.3	—	46181
Pen Euro Cap	30.0	31.6	—	46182
Pen Euro Acc	30.9	32.6	—	46183
Pen Eqs Cap	27.5	29.0	—	46184
Pen Eqs Acc	28.3	29.8	—	46185
Pen Am Eq Cap	27.4	28.9	—	46186
Pen Am Eq Acc	28.3	29.8	—	46187
Pen Far East Cap	28.5	30.0	—	46188

[illegible]

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836.4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655				
Managed Fund	286.8	301.9	–	43272
Man Pens Inc & Cap Fd	373.8	393.5	–	43273
Money Fund	117.2	123.4	–	43274
Pens Mngd Fd (Init)	100.9	106.3	–	43275
Pens Mngd Fd (Acc)	120.1	126.5	–	43276
Pens FT30 Fd (Init)	142.5	150.0	–	43277
Pens FT30 Fd (Acc)	169.6	178.6	–	43278
Pens O'seas Mgf (Init)	70.7	74.5	–	43279
Pens O'seas Mgf (Acc)	84.2	88.7	–	43280
Pens Fxd Int Fd (Init)	105.7	111.3	–	43281
Pens Fxd Int Fd (Acc)	125.8	132.5	–	43282
Pens Deposit Fd (Init)	103.4	108.9	–	43283
Pens Deposit Fd (Acc)	123.1	129.6	–	43284
Premium Life Assurance Co Ltd				
37-39 Perrymount Road, Haywards Heath 0444 458721				
American	104.0	110.0	–	43285
Building Soc. Fd	168.0	177.0	–	43286
Balanced	271.0	285.0	–	43287
Deposit	168.0	177.0	–	43288
European	149.0	157.0	–	43289
GT Managed	171.0	180.0	–	43290
Gartmore Mngd	112.0	118.0	–	43291
German	103.0	109.0	–	43292
Gilt	174.0	184.0	–	43293
Global	48.0	51.0	–	–
High Inc.	115.0	121.0	–	43294
International Equity	176.0	186.0	–	43295
Japan	238.0	251.0	–	43296
Managed	61.0	65.0	–	43297
Property	276.0	291.0	–	43298
R. W. Imperial Gold	130.0	137.0	–	43299
UK Equity	367.0	387.0	–	43300
Pension Funds				
American	129.0	135.0	–	43301

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

BERMUDA AUTHORISED

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
855	Treas 9½pc Cnv 1989	99⅝	11.97	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	97	9.63	10.10	15 Mar 15 May	1327
1,400	Treas 10½pc 1989	99	12.65	7.11	14 Dec 14 Jun	1287
2,400	Exch 10pc 1989	98	[illegible]	29.12	1 Feb 1 Aug	1253
2,000	Exch 11pc 1989	99	12.52	20.2	29 Mar 29 Sep	1255
601	Treas 5pc 1986–89	96	[illegible]	8.9	15 Apr 15 Oct	1329
174	Exch 10¼pc Cv '89	99	[illegible]	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990	100	11.77	9.12	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990	99	[illegible]	6.1	[illegible]	1257
1,250	Exch. 12½pc 1990	100	11.78	13.2	22 Sep 22 Mar	1262
550	Treas 3pc 1990	92¼	9.65	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987–90	96	11.39	8.11	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990	97	[illegible]	12.12	16 Jul 16 Jan	4680
1,887	Treas. 10pc Cv 1990	97	11.56	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	89	9.14	17.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	103	11.45	5.12	10 Jul 10 Jan	1292
400	Funding 5¾pc 87–91	91¼	[illegible]	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	88	9.23	7.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91	98	[illegible]	6.12	12 Jan 12 Jul	1256
1,550	Exch. 11pc 1991	99	11.07	19.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	92¾	11.06	3.11	10 Dec 10 Jun	1335
900	Treas 12¾pc 1992	104¼	11.75	16.12	22 Jul 22 Jan	1297
1,600	Treas 10pc 1992	97	10.87	16.1	21 Aug 21 Feb	1283
1,400	Treas. 8pc 1992	92	10.89	6.9	13 Oct 13 Apr	1337
1,252	Treas 10½pc Cv 1992	99	10.79	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	84	8.55	4.12	11 Dec 11 Jun	1338
1,350	Exch 12¼pc '92	104	10.78	19.1	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	108	10.76	13.2	22 Mar 22 Sep	1266
950	Treas 8¼pc 1993	92	10.66	17.1	15 Apr 15 Feb	–
1,650	Treas 10pc 1993	98	10.48	8.9	15 Oct 15 Apr	1279
1,100	Treas 12½pc 1993	106	10.52	8.12	14 Jan 14 Jul	1296

BRITISH FUNDS—Contd

Undated

Amount £m	Stock	Price £
359	Consols 4pc	45
1,909	War Loan 3½pc	39
140	Conv. 3½pc '61 Aft	69¾
56	Treas. 3pc '66 Aft	39⅝
275	Consols 2½pc	28
475	Treas. 2½pc	28½

Index-Linked

Amount £m	Stock	Price £	Red. Yld.
500	Treas 2pc IL '90(84.6)	126⅛	[illegible]
650	Do. 2pc '92(97.8)	105	[illegible]
400	Do. 2 '94 (102.9)	97	[illegible]
1,000	Do. 2pc '96(67.9)	144	[illegible]
900	Do 2½pc '01(78.3)	123	[illegible]
800	Do. 2½pc '03(78.8)	120	[illegible]
1,200	Do. 2pc '06(69.5)	123	[illegible]
950	Do. 2½pc '09(78.8)	116	[illegible]
1,350	Do. 2½pc '11(74.6)	121	[illegible]
1,100	Do. 2½pc '13(89.2)	100	[illegible]
1,700	Do. 2½pc '16(81.6)	109	[illegible]
1,400	Do. 2½pc '20(83.0)	106	[illegible]
900	Do. 2½pc '24(97.7)	90	[illegible]

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for June 1988:106.6 and for January 1989:111.0

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

OTHER OFFSHORE FUNDS

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

USA Income Portfolio

NAV Feb 23 $9.16 – 45900

US Federal Securities Fund SA

NAV Feb 23 $9.59 – 45901

US Pacific Stock Fund

NAV Feb 24 $16.68 – 45902

Unico Invest Fd Mgt Co SA Lux

London & Continental Bankers Ltd

Unico Invest. Fund	DM72.64	74.90	3.00	45905
Unico Equity Fund	DM56.66	58.36	3.00	45906

Union-Investment-Gesellschaft GmbH

Unifonds	DM26.59	28.00	–	45926
Unirak	DM71.39	74.90	–	45927
Unirenta	DM36.92	38.10	–	45928

Viking Fund–SICAV

§NAV Feb 21 Ecu 97.87

Wardley Investment Services Ltd

Wardley S.E. Asia Tst	$8.69	9.23	1.41	45993
Wardley Asia Pac Trust	$11.38	11.61	4.31	45994

World Fund S.A.

World Fund NAV Feb 16 $22.13 – 45998

World Natural Resources

NAV Feb 23 $10.34 –

Yamaichi Dynamic Mngt Co SA

Advanced Tech	$25.88	–	46002
Dynamic Grth Fd	$21.69	–	46003

Money Market Trust Funds

	Gross	Net	Equiv CAR	City-line
Charities Aid Fndtn Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3 01-283 6461				
CAFCASH Call Fund	11.69	8.97	12.37	–
CAFCASH 7-day Fund	12.15	9.33	12.88	–
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	12.45	–	13.04	–
Gartmore Money Management Ltd				
2-3 White Hart Yard, London SE1R 1NX. 01-236 1425				
Call Fnd	11.82	9.07	12.37	–
7-day Fund	12.40	9.52	13.00	–
Dollar	8.44	6.49	8.87	–

Money Market Bank Accounts

	Gross	Net	Equiv CAR	City-line
AAB–Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-629 6802				
CMNA (£2,001+)	13.10	10.05	14.04	–
HICA (£2,001+)	12.50	9.59	13.37	–
M & G/Kleinwort Benson				
M & G Hse., Victoria Rd, Chelmsford 0245 266266				
H.I.C.A. (£2,500+)	11.50	8.83	12.26	–
Midland Bank plc				
PO Box 2, Sheffield. 0742 528655				
High Int. Chq Acc.	11.07	8.50	11.70	–
£10,000+	11.40	8.75	12.06	–
£50,000+	11.73	9.00	12.41	–
Premier Savings £5,000+	12.38	9.50	12.97	–
M.I.M. Britannia Ltd				
11 Devonshire Square EC2M 4YR 01-626 3434				
Caser Allied	11.625	8.9222	12.3950	–
NatWest Special Reserve Account				
41 Lothbury, London, EC2P 2BP 01-374 3374				
£10,000 and above	11.75	9.00	12.41	–
£2,000 to £9,999	11.25	8.50	11.69	–
£1,000–£1,999	10.75	8.25	11.35	–
£500–£999	10.50	8.00	10.99	–
Provincial Bank PLC				
30 Ashley Rd, Altrincham, Cheshire 061-928 9011				
H.I.C.A. (£1,000+)	12.50	9.60	13.34	–
Royal Bank of Scotland plc Premium Acc				
42 St Andrew Sq, Edinburgh EH2 2YE. 031-557 0201				
£50,000+	12.00	9.21	12.71	–
£25,000–£49,999	11.80	9.05	12.49	–
£10,000–£24,999	11.60	8.90	12.27	–
£2,500–£9,999	11.25	8.63	11.89	–
Save & Prosper/Robert Fleming				
28 Western Rd, Romford RM1 3LB. 0708 766966				
H.I.B.A.	11.40	8.75	12.19	–
Tyndall & Co Ltd				
29-33 Princess Victoria St, Bristol 0272 732241				
Demand Acc.	12.00	9.21	12.71	–
Money Acc.	11.89	9.12	12.58	–
Client Plus Acc.	11.50	8.82	12.16	–
J. Henry Schroder Wagg & Co Ltd				
Enterprise House, Portsmouth 0705 827733				
Special Acc.	10.625	8.15	11.28	–
£10,000 and above	10.875	8.35	11.57	–
Western Trust High Interest Cheque Acc				
The Moneycentre, Plymouth PL1 1SE 0752 224141				
£1,000–£4,999	12.00	9.21	12.70	–
£5,000–£9,999	12.25	9.40	12.97	–
£10,000–£49,999	12.50	9.59	13.25	–
£50,000+	12.75	9.78	13.53	–
Wimbledon & South West Finance Co Ltd				
114 Newgate St, London EC1 7AE 01-606 9485				
High Int Cheque Acc	12.50	9.59	13.25	–

NOTES–Gross rate to those exempt from composite rate of tax. Net actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers–compounded annual rate int. Gr frequency interest credited

UNIT TRUST NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. z Previous day's price. §§ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. †† Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend. (**) Funds recognised within territory.

LONDON SHARE SERVICE

• For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	♥ABM Gold Corp ‖	149p	–	–	–	–	–
–	♥Abbot Energy Corp.	13¼p	–	–	–	–	–
705.6	♥Amer Barrick Res	12¼	–	–	–	–	–
–	♥Amer. Lightwave ‖	24½p	–	–	–	–	–
–	♥Armeno	16½p	–	–	–	–	–
–	♥Asiamerica ‖	103p	–	–	–	–	–
–	♥Augmitto Expln	24¼p	–	–	–	–	–
1,429.9	Bk. Montreal ‖	13¼	$2.12	7.4	8 8	Fb My Ag Nv	–
1,142.9	Bk. Nova Scot. ‖	689p	84c	5.9	28 9	Ja Ap Ju Oc	–
4,946.9	BCE ‖	17½	$2.44	6.5	6 6	Ap Jy Oc Ja	–
277.9	♥Bow Valley ‖	671p	40c	2.9	15 12	May Nov.	–
882.6	♥Brascan ‖	13	83c	3.3	28.10	Ja Ap Jy Oc	–
44.2	♥Breakwater Res	197p	10c	2.4	–	–	–
1,897.6	Can. Imp Bank ‖	12⅛	$1.16	4.6	29.6	Fe My Au No	–
3,295.9	Can. Pacific ‖	10⅞	76c	3.4	28 9	July Jan.	–
18.0	Do. 4pc Deb £100.	38½	4%	10.4	24.11	July Jan	2051
–	Central Capital "A" ‖	392p	–	–	–	–	–
–	♥Corona Corp.	434p	–	–	–	–	–
51.1	♥Cons TVX Min	315p	–	–	–	–	–
–	♥Dardus Mem. Syst. ‖	22p	–	–	–	–	–
–	♥Derlan Inds. ‖	588p	11.75c	1.0	5 6	Mr Jn Se De	–
860.9	♥Echo Bay Mines	909p	$0.07	0.4	–	June Dec	–
–	♥ECO Corp ‖	457p	–	–	–	–	–
–	♥Energex Minerals ‖	13p	–	–	–	–	–
	For Euro-Asia see Asiamerica						
64.4	♥Galactic Resources	216p	–	–	–	–	–
252.0	Gandalf Techs Inc.	238p	–	–	–	–	5088
5.71	♥Geodome Res	43p	–	–	–	–	–
35.7	Granges Exploration ‖	164p	–	–	–	–	–
–	♥Gt Pacific Res.	21p	–	–	–	–	–
–	♥Gulf Canada ‖	677p	52c	3.7	26.3	Ja Ap Jy Oc	–
95.8	♥Hawker Sid Can ‖	11¼	$1.08	4.4	15.11	Ap Jy Oc Ja	–
–	♥Hees Group	445p	–	–	–	–	–
354.7	♥Hudson's Bay ‖	12⅞	60c	2.4	2.10	Mr Jn Sp Dc	–
3,779.5	♥Imperial Oil ‖	23⅞	$1.80	3.7	26 11	Mr Je Se De	–
2,806.4	Inco ‖	27⅛	US$0.80	2.6	2.11	Jan.Ag.J.O	–
–	♥Inland Nat. Gas $1	618p	60c	4.7	30.12	Fe My Au No	–
7.78	♥Madeleine Mines	133p	–	–	–	–	–
–	♥Muscocho Expln	171p	–	–	–	–	–
–	♥Ntnl Business Syst. ‖	41½p	–	–	–	–	–
–	♥Nevada Goldfields.	102p	–	–	–	–	–
485.0	♥Rio Algom	11⅝	$1.30	5.5	5 11	June Dec	–
2,495.6	Royal Bk. Can. ‖	18	$2.20	5.9	19.10	Mr Je Se De	–
3,640.7	Seagram ‖	38⅛	US$1.20	1.7	14.2	Se De Mr Jn	–
–	♥Sonora Gold Corp ‖	107p	–	–	–	–	–
–	♥Spiral Eng ‖	78p	–	–	–	–	–
–	♥Tam Pure Tech. Corp ‖	104p	–	–	–	–	–
2,997.8	Toronto-Dom. Bk. ‖	17⅝	$1.12	3.1	22.12	F My Au No	–
896.0	♥Trans Can Pipe	719p	68c	4.5	1.12	Ja Ap Jy Oc	–
271.6	Varity Corp ‖	164p	8	–	11'77	–	–

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES—Contd

[illegible]

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
2.56	Rentaminster 5p .. y	63	F2.0	4.2	30.1	–	5228
8.41	Royal Sovereign 10p. y	190	₦4.6	3.2	3.10	May Nov	1505
1.43	Scott Pickford 10p... y	28½	3.1	20.2	–	–	5062
8.06	Seacon Hldgs....... y	116	Z1.0	1.1	19.9	October	3968
1.25	Sonic Tape 2½p.... y	10	–	–	–	–	5152
4.14	Stats Hldgs. 5p.... y	15	–	–	–	–	4625
3.56	Swanyard Studios 1p y	2½	–	–	–	–	4666
30.1	Takare............. y	345	1.0	0.4	–	–	4647
3.92	Tomorrows Leisure 20p y	35	–	–	–	–	4248
10.8	Tullow Oil 10p..... y	15	–	–	24.2	–	4886
4.03	UPL Group 10p..... y	106	L2.41	3.2	28.11	June	4362
7.49	Unit Group........ y	145	F7.5	6.9	21.11	Jan July	4357
13.1	Whitegate Leisure 20p. y	16½	–	–	–	–	1105
1.00	Do. Wrrnts....... y	15	–	–	–	–	1116
18.6	Wilton Group 1p... y	5½	–	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... y	80	......
Craig & Rose £1... y	716	......
Finlay Pkg. 5p ... y	93	......
Holt (Jos) 25p.... y	1235	......

IRISH

Cap. 8½% Ln. 1991..	£99⅞	......
9pc Cap Ln. 1996..	£99¼	+¼
Fin. 13% 97/02...	£121	......
Arnotts..............	425	......
Carrol (P.J.)...... y	155	......
Hall (R. & H.)......	180	+5
Helton Hldgs....... y	71xd	+3
Irish Ropes.........	185	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	38
Land Securities	52
MEPC	50

Oils

Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	38
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Sterling may need further base rate rise

THERE ARE certain similarities between the Australian and British economies, including an expensive currency supported high interest rates, a current account deficit, and a budget surplus, but the theory that because the Australian dollar has fallen by 10 per cent sterling must follow suit seems to have one serious flaw.

The Australian Government wants the local dollar to fall, but the British Government has no intention of letting the pound follow a similar course.

So far sterling has been supported by a mixture of modest intervention from the Bank of England, plus words and rumours. The authorities are trying to defend the pound on the cheap, according to Mr Roger Bootle, chief UK economist at Greenwell Montagu Gilt-Edged, but may yet be forced into tougher action, involving another rise in bank base rates.

It was not long ago that the financial markets were speculating about the timing of a base rate cut, but sentiment has completely turned round. March short sterling futures on Liffe now discount a Libor rate of 13¼ per cent at delivery on March 15, the day after the Budget, while the June contract points to a Libor rate of 13 per cent at delivery. There is no indication here of any cut in base rates even by June.

Mr Bootle says he believes Wednesday's UK trade figures for January could be crucial in deciding whether there is an early rise in base rates. He argues that Mr Nigel Lawson, the Chancellor, will not welcome a sterling crisis in the next week or so, when he is trying to make his final calculations on the Budget.

Tactics used to defend the pound have included a moderate amount of intervention, timed on Thursday to coincide with the Chancellor's speech in the Commons, promising a prudent Budget and no question of a premature cut in interest rates. Another event which seemed timed to unsettle the sellers of sterling was a Press report on Friday that Mr Lawson will claim in his Budget speech that the UK current account deficit for 1988 is closer to £7bn than the official estimate of £14.3bn.

This created some suspicion that it was another move to blunt the impact of bad news. Rumours of a rise in the annual inflation rate to 7.5 per cent were circulating freely in the City several days before the figure was confirmed on February 17.

The £7bn current account deficit story will at least cause some doubt and confusion about the underlying level of any shortfall whatever the January deficit turns out to be. A deficit of under £1bn on the current account will be regarded as good, and a sign that the balance of trade is moving in the right direction. A figure between £1bn and £1.75bn may be seen as neutral, but a deficit in the region of £2bn could mean a rise in base rates to 14 per cent, according to Mr Bootle.

The Chancellor may offset some of the pain of higher base rates with a cut of 1p in the standard rate of income tax in the Budget, which Mr Lawson could still claim was prudent and cautious. This would also be in line with City expectations.

Barclays de Zoete Wedd believes there is a danger of higher base rates in the near future, but suggests this may be limited to ½ per cent, taking the rate up to 13½ per cent. BZW notes that building societies are still liquid with funds to lend at present and a rise of ½ per cent in base rates should not trigger higher mortgage rates. Nevertheless it would signal to the foreign exchanges that Britain has no intention of following the Australian example.

Colin Millham

£ IN NEW YORK

Feb 24	Close	Previous Close
£ Spot	1.7560-1.7570	1.7600-1.7610
1 month	0.44-0.41pm	0.45-0.42pm
3 months	1.25-1.30pm	1.36-1.31pm
12 months	3.62-3.57pm	3.95-3.85pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Feb.24	Previous
8.30 am	96.7	96.7
9.00 am	96.8	96.7
10.00 am	96.7	96.6
11.00 am	96.8	96.6
Noon	96.7	96.5
1.00 pm	96.7	96.4
2.00 pm	96.6	96.5
3.00 pm	96.6	96.7
4.00 pm	96.5	96.7

CURRENCY RATES

Feb.24	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.755826	0.646976
U.S Dollar	7	1.32723	1.13641
Canadian $	11.54	1.58684	1.36199
Austrian Sch.	4	17.0151	14.6256
Belgian Franc	7.75	50.7599	43.6070
Danish Krone	7½	9.32528	8.10603
Deutsche Mark	4	2.41941	2.07873
Neth.Guilder	5.00	2.73144	2.34669
French Franc	9½	8.25736	7.08554
Italian Lira	12½	1786.45	1532.17
Japanese Yen	2½	167.563	143.893
Norway Krone	8	8.84599	7.60260
Spanish Peseta	-	152.322	130.347
Swedish Krona	8½	8.31709	7.14179
Swiss Franc	4	2.06119	1.77167
Greek Drach.	20½	203.252	174.724
Irish Punt	-	N/A	0.779593

*All SDR rates are for Feb.23

CURRENCY MOVEMENTS

Feb.24	Bank of England Index	Morgan** Guaranty Changes %
Sterling	96.5	-15.0
U.S Dollar	66.6	+12.1
Canadian Dollar	101.2	-1.4
Austrian Schilling	106.7	+9.9
Belgian Franc	105.9	-6.1
Danish Krone	103.2	-1.5
Deutsche Mark	113.1	+20.9
Swiss Franc	108.4	+17.9
Guilder	110.3	+13.3
French Franc	99.2	-15.7
Lira	97.1	-20.3
Yen	151.8	+85.7

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are for Feb.23.

OTHER CURRENCIES

Feb.24	£	$
Argentina	31.8950-32.1005	18.2100-18.3200
Australia	2.1215-2.1245	1.2120-1.2135
Brazil	1.7425-1.7520	0.9950-1.0000
Finland	7.4670-7.4890	4.2620-4.2640
Greece	267.25-272.10	152.35-154.80
Hong Kong	13.6465-13.6595	7.7980-7.8000
Iran	123.25*	69.10*
Korea(Sth)	1178.95-1188.45	671.00-676.40
Kuwait	0.50325-0.50440	0.28750-0.28780
Luxembourg	67.10-67.20	38.25-38.35
Malaysia	4.7735-4.7850	2.7290-2.7310
Mexico	4063.50-4100.15	2320.00-2340.00
N. Zealand	2.8025-2.8075	1.5975-1.6000
Saudi Ar.	6.5630-6.5730	3.7500-3.7510
Singapore	3.3795-3.3800	1.9270-1.9290
S. Af (Cm)	4.3455-4.3570	2.4850-2.4880
S. Af (Fn)	6.8265-6.9620	3.8985-3.9760
Taiwan	48.60-48.85	27.65-27.75
U.A.E.	6.4265-6.4380	3.6725-3.6735

*Selling rate

EURO-CURRENCY INTEREST RATES

Feb.24	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11⅝-11½	12¼-11⅞	12⅞-12¾	13⅛-13	13⅛-13	13⅛-12⅞
US Dollar	9⅛-9⅞	9⅝-9½	9⅞-9⅞	10⅛-10	10⅜-10¼	9⅞-9⅞
Can. Dollar	11-10⅞	11⅛-11	11⅞-11¾	12-11⅞	12⅛-11⅞	12⅛-12⅛
D. Guilder	6⅞-6¾	6⅞-6¾	6⅞-6¾	7⅛-7	7⅜-7¼	7⅜-7¼
Sw. Franc	5⅝-5½	5⅝-5½	5⅞-5⅞	6⅛-6	6⅛-6¼	6⅛-6¼
Deutschmark	6-5⅞	6⅛-6¼	6⅞-6⅞	7-6⅞	7⅛-7	7⅜-7⅛
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Con.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 10¼-10⅛ per cent; three years 10⅛-10¼ per cent; four years 10¼-10⅛ per cent; five years 10¼-10⅛ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Feb.24	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.753	3.195	221.3	10.89	2.728	3.608	2359	2.099	67.15
$	0.570	1	1.823	126.2	6.212	1.556	2.058	1346	1.197	38.31
DM	0.313	0.549	1	69.26	3.408	0.854	1.129	738.3	0.657	21.02
YEN	4.519	7.921	14.44	1000.	49.21	12.33	16.30	10660	9.485	303.4
F Fr.	0.918	1.610	2.934	203.2	10.	2.505	3.313	2166	1.927	61.66
S Fr.	0.367	0.643	1.171	81.12	3.992	1.	1.322	864.7	0.769	24.62
H Fl.	0.277	0.486	0.886	61.34	3.018	0.756	1	653.8	0.582	18.61
Lira	0.424	0.743	1.354	93.81	4.616	1.156	1.529	1000.	0.890	28.47
C $	0.476	0.835	1.522	105.4	5.188	1.300	1.719	1124	1.	31.99
B Fr.	1.489	2.611	4.758	329.6	16.22	4.063	5.373	3513	3.126	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

Feb.24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7490-1.7595	1.7525-1.7535	0.44-0.41cpm	2.91	1.22-1.17pm	2.73
Canada	2.0970-2.1060	2.0980-2.0990	0.30-0.17cpm	1.34	0.58-0.39pm	0.92
Netherlands	3.60¼-3.63	3.60¼-3.61¼	1¼-1⅛cpm	5.61	5¼-5⅛pm	6.03
Belgium	67.00-67.45	67.10-67.20	35-20cpm	4.91	90-65pm	4.62
Denmark	12.45½-12.51¼	12.45¼-12.46½	5⅛-4⅞orepm	4.82	14¼-14⅛pm	4.65
Ireland	1.1975-1.2050	1.1995-1.2005	0.54-0.49pm	5.15	1.55-1.45pm	5.00
W. Germany	3.19¼-3.21¼	3.19¼-3.19¾	1¼-1⅛pfpm	6.34	4⅞-4¾pm	6.03
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 67.35-67.45. Six-month forward dollar 2.22-2.17cpm 12 month 3.62-3.57cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Feb.24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	1.8185-1.8305	1.8225-1.8235	0.50-0.49pfpm	3.25	1.43-1.39pm	3.09
Portugal	150¾-151	150¾-151	25-45cdis	-2.79	70-120dis	-2.52
Spain	114.20-114.95	114.35-114.45	23-28cdis	-2.67	81-88dis	-2.95
Italy	1342-1349½	1345¾-1346¼	2.00-3.50liredis	-2.45	7.00-9.00dis	-2.38
Norway	6.66½-6.69	6.67-6.67½	0.75-1.00oredis	-1.57	2.05-2.35dis	-1.32
France	6.20¾-6.24	6.21-6.21½	0.22-0.12cpm	0.33	0.65-0.50pm	0.37
Sweden	6.26½-6.29	6.27¼-6.27¾	0.80-1.00oredis	-1.72	1.80-2.10dis	-1.24
Japan	126.00-126.75	126.20-126.30	0.58-0.56ypm	5.41	1.69-1.66pm	5.30
Austria	12.82½-12.86¼	12.85-12.85½	3.50-3.10gropm	3.08	10.90-9.70pm	3.20
Switzerland	1.5510-1.5620	1.5560-1.5570	0.53-0.50cpm	3.96	1.53-1.49pm	3.87

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.40-38.50.

MONEY MARKETS

Fed tightens as split opens on US policy

THERE IS a split on US economic policy between President George Bush and Mr Alan Greenspan, chairman of the Federal Reserve Board, according to Mr Rupert Thompson, international economist at Morgan Grenfell.

Mr Greenspan seems much more concerned about inflation than Mr Bush, and this is illustrated by the Fed's tightening of its monetary stance. Rates could yet move higher according to Mr Thompson, with the Federal Funds rate touching 10 per cent, if US economic growth remains strong. He added that this month's employment data is likely to provide the key to any further tightening by the Fed.

Chase Manhattan started an upward move in US bank prime rates last Thursday, with an increase of ½ per cent to 11½ per cent. It followed Fed intervention, pushing the Fed funds rate up to 9¾ per cent from 9 per cent.

On Friday the US discount rate was raised ½ per cent to 7 per cent, although this was regarded as largely symbolic. Dealers noted that the discount rate remains some 2¾ per cent below the Fed funds rate, against a normal differential of about 1½ to 1¾ per cent. The market was left speculating about another discount rate rise in the near future, even though it could provide an unwelcome boost for the dollar.

UK clearing bank base lending rate 13 per cent from November 25

This poses a question about when and whether the Bundesbank will be forced to increase key West German interest rates, and also whether the UK authorities will squeeze bank base rates higher, to renew London's interest rate differential and support the pound.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

(4pm)					
Prime rate	11	One month	8.36	Three year	9.52
Broker loan rate	10⅝-¾	Two month	8.77	Four year	9.55
Fed.funds	9¾	Three month	8.93	Five year	9.51
Fed.funds at intervention	-	Six month	9.24	Seven year	9.46
		One year	9.52	10-year	9.39
		Two year	9.67	30-year	9.19

Feb.24	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	5.90-6.00	5.80-5.95	6.35-6.50	6.55-6.70	6.75-6.95	6.00
Paris	8⅞-9	9¼-9⅜	9⅜-9½	9½-9⅝	9⅝-9¾	7.25
Zurich	4⅞-5¼	5½-5¾	-	5¾-6	-	-
Amsterdam	6.68-6.81	6.90-7.00	-	7.08-7.18	-	-
Tokyo	4-4⅛	4⅜-4⅞	-	4⅞-4⅝	-	-
Milan	11¾-12¼	12¼-12¾	-	12¼-12¾	-	-
Brussels	8.50	8-8¼	-	8⅛-8⅜	-	-
Dublin	7¼-7⅞	7⅝-7⅞	7⅞-8⅛	8¼-8⅞	8⅝-8⅞	-

LONDON MONEY RATES

Feb.24	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	14	12¼	12⅞	13⅛	13⅛	13⅛
Interbank Bid	10	11¾	12⅞	13	13⅛	12⅞
Sterling CDs.	-	-	12¾	12⅞	13	12⅞
Local Authority Deps.	11¼	12	12⅝	13	13⅛	12⅞
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	13½	12	12½	12¾	-	-
Company Deposits	-	-	12⅞	13⅛	13¼	13
Finance House Deposits	-	-	12⅞	13⅛	13⅛	13
Treasury Bills (Buy)	-	-	12½	12⅞	-	-
Bank Bills (Buy)	-	-	12⅞	12⅝	12⅞	-
Fine Trade Bills (Buy)	-	-	13⅜	13¼	12⅞	-
Dollar CDs	-	-	9.70-9.65	10.025	10.275	10.575
SDR Linked Dep Offer	-	-	8¼	8½	8⅝	8⅞
SDR Linked Dep Bid	-	-	8	8¼	8⅜	8⅝
ECU Linked Dep Offer	-	-	8⅞	9⅛	9⅞	9⅞
ECU Linked Dep Bid	-	-	8⅝	9	9¼	9⅜

Treasury Bills (sell); one-month 12⅞ per cent; three months 12⅞ per cent; Bank Bills (sell): one-month 12⅞ per cent; three months 12⅞ per cent; Treasury Bills; Average tender rate of discount 12.5059 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day January 31, 1989. Agreed rates for period February 26,1989 to March 25, 1989, Scheme I: 13.93 p.c., Schemes II & III: 14.41 p.c. Reference rate for period December 31 to January 31, 1989, Scheme IV&V: 13.171 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 13½ from February 1, 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 9½ per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-twelve months 11 per cent; Under £100,000 9½ per cent from December 1,1988, Deposits withdrawn for cash 5 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Feb.24)	3 months US dollars		6 months US Dollars	
	bid 9⅞	offer 10⅛	bid 10¼	offer 10⅜

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Feb.24	Feb.17		Feb.24	Feb.17
Bills on offer	£100m	£100m	Top accepted rate of discount	12.6549%	12.4541%
Total of applications	£357m	£328m	Average rate of discount	12.5059%	12.4113%
Total allocated	£100m	£100m	Average yield	12.9084%	12.8076%
Minimum accepted bid	£96.875	£96.895	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	86%	81%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	Feb.24	change		Feb.24	change
LONDON			NEW YORK		
Base rates	13	Unch'd	Prime rates	11½	+½
7 day Interbank	12¼	+¼	Federal Funds	9¾	+¼
3 month Interbank	13⅛	+⅛	3 Mth. Treasury Bills	8.93	+0.12
Treasury Bill Tender	12.5059	+0.0946	6 Mth. Treasury Bills	9.24	+0.23
Band 1 Bills	12⅞	Unch'd	3 Mth. CD	10.025	+0.35
Band 2 Bills	12⅞	Unch'd	FRANKFURT		
Band 3 Bills	12⅞	Unch'd	Lombard	6.00	Unch'd
Band 4 Bills	12⅞	Unch'd	One mth. Interbank	5.825	+0.050
3 Mth. Treasury Bill	12⅞	Unch'd	Three month	6.125	+0.500
1 Mth. Bank Bills	12⅞	Unch'd	PARIS		
3 Mth. Bank Bills	12⅞	Unch'd	Intervention Rate	7.25	Unch'd
TOKYO			One mth. Interbank	9¼	+⅛
One month Bills	4⅞	+⅛	Three month	9½	+⅛
Three month Bills	4⅞	+⅛	MILAN		
BRUSSELS			One month	12⅜	Unch'd
One month	8⅛	Unch'd	Three month	12⅜	Unch'd
Three month	8⅛	Unch'd	DUBLIN		
AMSTERDAM			One month	7⅝	Unch'd
One month	6.95	+0.19	Three month	8⅛	Unch'd
Three month	7.13	+0.31			

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	FRIDAY FEBRUARY 24 1989: US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY FEBRUARY 23 1989: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1988/89 High	1988/89 Low	Year ago (approx)
Australia (89)	138.22	-0.6	116.89	111.49	4.82	139.06	117.14	111.33	157.12	91.16	98.32
Austria (18)	100.78	+0.2	85.23	95.64	2.57	100.61	84.75	95.17	100.78	83.72	87.02
Belgium (63)	133.51	-0.6	112.92	126.60	4.08	134.31	113.14	127.02	139.89	99.14	123.69
Canada (125)	131.35	-1.0	111.09	113.99	3.34	132.62	111.71	114.80	137.27	107.06	115.51
Denmark (39)	170.38	-0.9	144.10	164.71	1.79	171.93	144.83	169.56	180.38	111.42	117.81
Finland (26)	144.81	-1.3	122.47	129.56	1.39	146.70	123.57	131.30	147.07	106.78	115.95
France (130)	114.19	-0.2	96.58	111.28	2.92	114.45	96.41	111.62	119.98	72.77	88.18
West Germany (102)	84.36	+0.9	71.35	79.95	2.35	83.59	70.41	79.20	90.40	67.78	77.61
Hong Kong (44)	131.17	-0.2	110.93	131.34	3.64	131.38	110.67	131.56	133.77	86.90	91.63
Ireland (17)	145.82	-0.4	123.32	140.68	3.66	146.46	123.38	140.78	146.46	104.60	114.24
Italy (98)	81.17	-1.8	68.65	81.59	2.47	82.67	69.64	82.73	86.88	62.99	73.72
Japan (456)	200.03	-0.1	169.17	159.63	0.47	200.11	168.57	159.63	200.11	133.61	160.94
Malaysia (36)	159.44	-0.2	134.85	167.64	2.57	159.79	134.60	167.85	159.79	107.83	113.32
Mexico (13)	159.30	+0.6	134.73	405.82	1.26	158.29	133.34	405.85	182.24	90.07	149.96
Netherland (39)	113.95	-0.3	96.37	107.01	4.73	114.19	96.19	107.13	115.04	95.23	101.51
New Zealand (24)	72.38	+0.3	61.22	61.45	6.30	72.15	60.77	61.12	84.05	63.32	66.30
Norway (26)	167.78	-0.0	141.88	151.93	2.07	167.73	141.29	151.79	170.76	98.55	111.32
Singapore (26)	143.43	-0.1	121.31	127.44	2.09	143.58	120.95	127.44	143.62	97.32	104.17
South Africa (60)	130.78	+1.4	110.61	112.55	4.21	128.93	108.61	111.61	139.07	98.26	125.36
Spain (42)	145.12	-0.1	122.74	125.77	3.83	145.34	122.43	125.85	164.47	130.73	136.23
Sweden (35)	154.72	-0.2	130.85	143.72	2.15	154.44	130.09	143.41	154.80	96.92	109.47
Switzerland (57)	76.67	-0.4	64.84	73.98	2.33	76.96	64.83	74.03	86.75	74.13	82.74
United Kingdom (314)	148.18	-0.2	125.33	125.33	4.38	148.47	125.07	125.07	152.54	120.66	129.73
USA (560)	117.07	-1.6	99.01	117.07	3.69	118.92	100.17	118.92	121.90	99.19	107.07
Europe (1006)	118.36	-0.2	100.10	106.84	3.60	118.57	99.88	106.77	120.88	97.01	104.24
Nordic (126)	152.50	-0.4	128.98	138.35	1.94	153.07	128.94	138.65	153.81	98.11	107.81
Pacific Basin (675)	194.61	-0.1	164.59	156.21	0.67	194.72	164.03	156.21	194.72	120.89	155.76
Euro-Pacific (1681)	164.07	-0.1	138.76	136.65	1.53	164.22	138.34	136.62	164.22	120.36	135.17
North America (693)	117.82	-1.5	99.65	116.91	3.66	119.64	100.78	118.69	122.71	99.78	107.51
Europe Ex. UK (692)	99.94	-0.2	84.52	95.37	2.94	100.10	84.32	95.42	103.11	80.28	88.39
Pacific Ex. Japan (219)	129.78	-0.4	109.76	113.04	4.27	130.25	109.72	112.99	137.65	87.51	93.39
World Ex. US (1879)	162.60	-0.1	137.52	135.79	1.60	162.77	137.11	135.77	162.77	120.26	134.40
World Ex. UK (2133)	144.87	-0.6	122.52	129.92	1.99	145.69	122.73	130.60	146.04	111.77	123.26
World Ex. So. Af. (2387)	145.24	-0.5	122.83	129.59	2.20	146.03	123.01	130.19	146.65	113.26	123.81
World Ex. Japan (1991)	118.69	-0.9	100.38	113.49	3.67	119.82	100.93	114.45	122.57	100.00	106.03
The World Index (2447)	145.15	-0.5	122.76	129.48	2.21	145.92	122.92	130.07	146.51	113.37	123.82

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Limited. 1987.
Japanese market closed February 24.

EUROPEAN OPTIONS EXCHANGE

Series: GOLD C, GOLD P, EOE Index C, EOE Index P, $/FL C, $/FL P, ABN C, ABN P, AEGON C, AEGON P, AKZO C, AKZO P, AMEV C, AMEV P, AMRO C, AMRO P, BUHRMANN-T C, GIST-BROC. C, HEINEKEN C, HEINEKEN P, HOOGOVENS C, HOOGOVENS P, KLM C, KLM P, KNP C, KNP P, NEDLLOYD C, NEDLLOYD P, NAT.NED. C, NAT.NED. P, PHILIPS C, PHILIPS P, ROYAL DUTCH C, ROYAL DUTCH P, UNILEVER C, UNILEVER P, VAN OMMEREN C, VAN OMMEREN P — prices [illegible]. Gold stock $389; EOE Index stock Fl. 266.19; $/Fl stock Fl. 206.18.

TOTAL VOLUME IN CONTRACTS : 56,021
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	13	City Merchants Bank	13	Mount Bnkg Corp.	13
Adam & Company	13	Clydesdale Bank	13	Nat. Bk. of Kuwait	13
AAB - Allied Arab Bk	13	Comm.Bk.N.East	13	NatWestminster	13
Allied Irish Bank	13	Co-operative Bank	*13	Northern Bank Ltd	13
● Henry Ansbacher	13	Coutts & Co	13	Norwich Gen. Trust	13
ANZ Banking Group	13	Cyprus Popular Bk	13	PRIVATbanken Limited	13
Associates Cap Corp	12	Dunbar Bank PLC	13	Provincial Bank PLC	14
Authority Bank	13	Duncan Lawrie	13	R. Raphael & Sons	13
● B & C Merchant Bank	13	Equatorial Bank plc	13	Roxburghe G'rantee	13½
Bank of Baroda	13	Exeter Trust Ltd	13½	Royal Bk of Scotland	13
Banco Bilbao Vizcaya	13	Financial & Gen. Bank	13	Royal Trust Bank	13
Bank Hapoalim	13	First National Bank Plc.	14	● Smith & Williamson Secs.	13
Bank Credit & Comm	13	● Robert Fleming & Co.	13	Standard Chartered	13
Bank of Cyprus	13	Robert Fraser & Ptnrs.	13½	TSB	13
Bank of Ireland	13	Girobank	13	United Bk of Kuwait	13
Bank of India	13	● Guinness Mahon	13	United Mizrahi Bank	13
Bank of Scotland	13	HFC Bank plc	13	Unity Trust Bank Plc	13
Banque Belge Ltd	13	● Hambros Bank	13	Western Trust	13
Barclays Bank	13	Heritable & Gen Inv Bnk.	13	Westpac Bank Corp.	13
Benchmark Bank PLC	13	● Hill Samuel	§13	Whiteaway Laidlaw	13½
Berliner Bank AG	13	C. Hoare & Co.	13	Yorkshire Bank	13
Brit Bk of Mid East	13	Hongkong & Shangh	13		
● Brown Shipley	13	● Leopold Joseph & Sons	13		
Business Mtge Tst	13½	Lloyds Bank	13		
Cl. Bank Nederland	13	McDonnell Douglas Bnk	13		
Central Capital	13	Meghraj Bank Ltd	13		
● Charterhouse Bank	13	Midland Bank	13		
Citibank NA	13	Mortgage Express Ltd.	‡13.95		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.22% Savewise 8.47%. Top Tier-£10,000 + instant access 11.72% ‡ Mortgage base rate. § Demand deposit 8%. Mortgage 13.625% - 14.00%

JOTTER PAD

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1988/89 High	Low	Stock	Closing Price p	+or-	Net Div.	Times Covered	Gross Yield	P.E. Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988/89 High	Low	Stock	Closing Price £	+or-
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988/89 High	Low	Stock	Closing Price p	+or-
117	Nil	-	27pm	20pm	Hughes (H.T.) 10p	24pm	+2½
12	Nil	-	7pm	6pm	Lynx Group	6pm	-1
10	Nil	-	5pm	4pm	Marcom Intl.	4pm	
30	Nil	-	4½pm	1½pm	Stanco Exhibition Grp. 5p	1½pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ◆ Issued in connection with reorganisation merger or takeover. ‖ Allotment price. ‡ Unlisted securities market. ◆ Official London listing. □ Including warrants entitlement. * Third Market.

CROSSWORD

No.6,871 Set by DANTE

ACROSS

1 No wide choice of colour (6)
4 Distressing twitch about to irritate (6)
8 Round of applause is praise in one part of the theatre (7)
9 They see that their papers are in order (7)
11 He has his own ideas on hoarding (10)
12 Deserve to get the bird, we hear (4)
13 A hard question for one, a sitter for another (5)
14 Set ideas about part of New York (4,4)
16 Believe Bill has surplus wealth (8)
18 Bridal path (5)
20 A force retreats to a distance (4)
21 Remove vital parts of tea-service that's broken (10)
23 They connect similar pressure points (6)
24 Misguided claim about American stage show (7)
25 Heavenly body became a model on a vase (6)
26 Capital for a ship holding company (6)

DOWN

1 Looked for a new lodge (5)
2 Charming things to wear (7)
3 Dog finally had puppies – that was splendid! (9)
5 It locates aircraft climbing or descending (5)
6 Collects the rags after sorting (7)
7 The case for a charge (9)
10 Confirm it's a Cartesian translation (9)
13 They don't like to strike (9)
15 Youth organisation uses coast on manoeuvres (3,6)
17 Savoury portion, not well cooked (7)
19 Waiting for a religious ceremony (7)
21 Fear head chopped off in mistake (5)
22 Vehicles that may catch speeding motorists (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 11.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

JAPAN

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

4pm prices February 23

Quotations in cents unless marked $

[illegible]

MONTREAL

4pm prices February 23

[illegible]

Total Sales 6,125,258 shares.

INDICES

NEW YORK DOW JONES

	Feb 24	Feb 23	Feb 22	Feb 21	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
♦Industrials	2245.54	2289.46	2283.93	2326.43	2347.14 (7/2/89)	1879.14 (20/1/88)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.11	88.27	88.28	88.48	91.25 (3/3/88)	86.12 (4/1/88)	–	–
Transport	1071.96	1078.10	1069.21	1082.15	1087.97 (7/2/89)	737.57 (21/1/88)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	181.84	184.51	183.62	185.51	191.15 (24/1/89)	167.26 (20/4/88)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2291.79 (2295.71) Low 2242.68 (2266.96)

STANDARD AND POOR'S	Feb 24	Feb 23	Feb 22	Feb 21	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
Composite‡	287.13	292.05	290.91	295.98	299.63 (7/2/89)	242.63 (20/1/88)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	331.33	337.10	335.80	342.07	346.41 (7/2/89)	277.86 (20/1/88)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	26.03	26.49	26.42	26.91	27.24 (7/2/89)	21.51 (8/1/88)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	161.72	164.09	163.55	166.06	168.02 (7/2/89)	136.72 (20/1/88)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	321.49	323.23	321.88	324.86	327.23 (8/2/89)	262.76 (12/1/88)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	399.96	403.07	402.49	406.38	409.19 (7/2/89)	331.97 (12/1/88)	455.28 (26/8/87)	54.87 (31/10/72)

	Feb 10	Feb 3	Jan 27	year ago (approx.)
Dow Industrial Div. Yield	3.63	3.45	3.46	3.48

	Feb 22	Feb 15	Feb 8	year ago (approx.)
S & P Industrial div. yield	3.18	3.13	3.05	2.99
S & P Indl. P/E ratio	13.48	13.63	13.85	14.92

TRADING ACTIVITY † Volume

Millions	Feb 24	Feb 23	Feb 22
New York	160.680	150.370	163.140
Amex	10.875	11.720	10.118
OTC	122.908	116.856	129.516

NEW YORK	Feb 24	Feb 23	Feb 22
Issues Traded	(u)	1,923	1,961
Rises	249	738	321
Falls	1,031	684	1,196
Unchanged	(u)	501	444
New Highs	(u)	24	18
New Lows	(u)	22	12

CANADA

TORONTO	Feb 24	Feb 23	Feb 22	Feb 21	1988/89 High	1988/89 Low
Metals & Minerals	3373.5	3424.3	3426.9	3456.3	3564.9 (6/2/89)	2238.7 (8/2/88)
Composite	3562.0	3588.4	3584.1	3608.3	3696.1 (8/2/89)	2977.9 (8/2/88)
MONTREAL Portfolio	1758.59	1776.27	1776.27	1791.42	1850.44 (8/2/89)	1305.06 (27/1/88)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Eastart	(u)	39⅞	+ 7⅛	Santa Fe	(u)	23⅝	+ 1⅛
Storage Technology	(u)	1⅞	+ ⅛	West Point-Pepperell	(u)	57⅛	—
Texas Util	(u)	38½	– ⅜	General Electric	(u)	45⅛	– ⅞
IBM	(u)	121⅛	– 2⅛	Pan Am	(u)	3⅞	– ⅛
AT&T	(u)	29⅞	– ⅛	NWA	(u)	72⅞	+ 3⅝

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Feb. 24	Feb. 23	Feb. 22	Feb. 21	1988/89 High	1988/89 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1486.2	1478.7	1492.9	1481.4	1657.8 (9/8/88)	1170.7 (10/2/88)
All Mining (1/1/80)	696.2	680.8	689.7	677.5	847.8 (9/8/88)	532.4 (10/2/88)
AUSTRIA						
Credit Aktien (30/12/84)	248.59	247.21	247.21	244.00	248.59 (24/2/89)	163.93 (11/2/88)
BELGIUM						
Brussels SE (1/1/84)	5679.29	5698.47	5765.02	5754.93	5834.01 (10/2/89)	3608.35 (4/1/88)
DENMARK						
Copenhagen SE (3/1/83)	282.11	283.52	287.78	288.24	291.83 (10/2/89)	180.68 (4/1/88)
FINLAND						
Unitas General (1975)	779.7	778.9	780.8	782.1	784.2 (20/2/89)	530.6 (15/1/88)
FRANCE						
CAC General (31/12/82)	430.9	431.7	445.9	445.0	457.1 (3/2/89)	251.3 (29/1/88)
Ind. Tendance (30/12/88)	100.2	100.6	103.7	104.2	108.1 (3/2/89)	100.0 (1/1/89)
GERMANY						
FAZ Aktien (31/12/58)	541.96	537.44	547.66	553.80	569.27 (8/2/89)	396.40 (29/1/88)
Commerzbank (1/12/53)	1614.5	1602.5	1632.1	1650.7	1705.6 (5/1/89)	1207.9 (29/1/88)
DAX (30/12/87)	1288.04	1271.70	1292.17	1307.52	1371.10 (5/1/89)	931.18 (28/1/88)
HONG KONG						
Hang Seng Bank (31/7/64)	3114.29	3125.20	3161.56	3150.64	3209.96 (9/2/89)	2223.56 (8/2/88)
ITALY						
Banca Com. Ital. (1972)	586.40	593.97	592.71	591.43	615.89 (17/1/89)	423.91 (9/2/88)
JAPAN						
Nikkei (16/5/49)	(c)	32452.49	32311.93	31980.0	32452.49 (23/2/89)	21217.04 (4/1/88)
Tokyo SE (Topix) (4/1/68)	(c)	2487.24	2472.04	2452.91	2490.07 (8/2/89)	1690.44 (4/1/88)
NETHERLANDS						
ANP-CBS General (1970)	302.8	301.9	306.4	308.2	310.7 (8/2/89)	205.7 (4/1/88)
ANP-CBS Industrial (1970)	263.2	263.3	266.8	268.2	272.7 (8/2/89)	157.9 (11/1/88)
NORWAY						
Oslo SE (4/1/83)	560.16	564.51	570.52	568.27	570.52 (22/2/89)	327.78 (28/1/88)
SINGAPORE						
Straits Times Ind. (30/12/66)	1136.31	1134.42	1138.75	1131.53	1177.87 (8/8/88)	633.60 (4/1/88)
SOUTH AFRICA						
JSE Gold (28/9/78)	1402.0♦	1374.0	1357.0	1315.0	1451.0 (7/7/88)	1154.0 (4/5/88)
JSE Industrial (28/9/78)	2252.0♦	2254.0	2253.0	2235.0	2254.0 (23/2/89)	1387.0 (12/2/88)
SPAIN						
Madrid SE (30/12/85)	272.54	273.36	274.10	272.67	301.63 (15/6/88)	225.50 (4/1/88)
SWEDEN						
Jacobson & P. (31/12/56)	3639.2	3705.8	3730.0	3699.8	3730.0 (22/2/89)	2148.5 (4/1/88)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	644.3	643.8	652.1	650.9	652.1 (22/2/89)	466.6 (13/1/88)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	516.1	513.7	514.0	519.0 (19/2/89)	401.0 (21/1/88)

♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Thursday 23 February 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toshiba	108.7m	1,260	+30	Taisei	63.3m	1,770	uch
Nippon Steel	97.0m	975	+11	Mitsubishi Electric Co	62.2m	1,170	+30
Sumitomo Metal	84.4m	874	+14	Fuji Electric	60.3m	1,080	+60
Kobe Steel	72.3m	900	+33	Daido Steel	58.6m	1,300	+80
Mitsubishi Heavy Ind	68.7m	1,210	+40	Nissin Steel	53.2m	1,230	+20

4pm prices February 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
28¾	20⅞	AAR	.44	1.7	18	150	25½	25¼	25¼	– ⅛
10⅛	8⅛	ACM n	1.01	12.		130	8⅞	8¾	8¾	– ⅛
12⅛	10¼	ACMIn	1.28e	11.		250	11	10⅞	11	
10⅛	8½	ACM M	n1.01	11.		127	9¼	9⅛	9⅛	
12⅛	10⅛	ACM Sc	1.26	12.		957	10⅜	10⅜	10⅜	– ⅛
10⅛	8½	ACMSp	n.75e	8.8		457	8⅞	8¾	8¾	– ⅛
5⅛	2⅝	AMCA	.12e	2.9		110	4⅛	4	4⅛	+ ⅛
6⅛	3⅛	AM Intl				629	5⅝	5⅝	5⅝	– ⅛
23⅛	18⅛	AM Int pf	2	8.9		30	22⅝	22⅛	22½	
62¼	37¼	AMR			8	3395	61	59¾	61	+ ⅛
9½	4⅞	ARX				72	5	4⅞	4⅞	– ⅛
49⅞	35⅛	ASA	3a	7.3		1465	40⅞	40	40⅞	+ 1⅛
20⅛	14⅛	AVX	.24	1.4	9	360	18	17⅝	17⅝	– ⅝
62⅛	42⅞	AbtLab	1.20	2.3	15	3641	51⅛	50¼	51⅛	+ ½
20⅛	15⅛	Abitibi g	1			10	17⅛	17	17	
13⅞	7½	AcmeC	.40	3.6		168	11⅛	10⅞	11	
8⅝	5⅞	AcmeE	.32b	5.2	22	2	6⅛	6⅛	6⅛	
29½	18¼	Acuson			25	1891	u30¼	28	29½	+ 1½
17	14½	AdaEx	1.82e	12.		340	14⅞	14¾	14⅞	+ ⅛
18⅞	7⅛	AMD			78	3334	8¼	8⅛	8⅛	
43½	28¾	AMD pf	3	9.5		42	31½	31½	31½	– ⅛
8½	5⅞	Adobe				25	7⅛	7¼	7⅛	
18½	16½	Adob pf	1.84	11.		1	17¼	17¼	17¼	– ⅛
9¼	6⅞	Advest	.12	1.5	17	85	8	7⅞	8	
52½	39½	AetnLf	2.76	5.5	9	675	50⅛	49½	50⅛	+ ½
98	90¼	AetL pfC	6.16e	6.4		3	u98½	95½	95½	+ 1½
44½	24	AfilPb s	.22	.5		605	43	41⅞	42⅝	+ 1⅛
18¼	13¾	Ahmans	.88	6.2	8	1511	17	16⅝	17	+ ⅛
4⅛	2	Aileen			20	20	3⅛	3⅛	3⅛	+ ⅛
53⅛	37¼	AirPrd	1.20	2.7	11	1038	45⅛	44⅝	45	+ ⅛
24	16½	AirbFrt	.60	2.7	22	43	22½	22¼	22¼	– ⅛

Continued on Page 35

NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales infull. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices February 24

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 3pm prices February 23

[illegible]

FINANCIAL TIMES Monday February 27 1989

The Business Column

How good service can serve profits

Have you ever sat in your socks for 10 minutes in a shoe shop, waiting for an assistant to reappear, only to realise eventually that you have been forgotten? Or hung around with a bunch of other customers waiting for the one salesman on duty to be free?

A 1987 survey of high street customers by Leo Burnett, the advertising agency, discovered that most shoppers thought the best service was in self-service shops. The survey also suggested that shoppers were prepared to pay a little extra for good service.

With some exceptions, British shops appear to be staffed – or understaffed – by people who know nothing about the products they are selling and are unwilling to put themselves out for the customer.

Where are the British equivalents of the obliging packers of the US supermarkets? Or the courteous service of the traditional small shops still common in continental Europe? Better still, the Japanese "bowers" who welcome and thank valued customers.

At last British retailers have cottoned on to the idea that if customer service – which covers areas like product knowledge as well as politeness at the till – can be improved, shoppers may buy more and come again. And who knows - profits may increase?

Although startlingly obvious to frustrated customers, retailers, in the main, are only just realising that they have been losing sales through poor service – and few have any estimate of how much business they may be missing.

Expenditure on staff training

Of course, improving service costs money, mainly on staff training. Asda, the food retailer, recently found that giving free carrier bags to customers – a pretty basic improvement in service – cost £1.5m in six months. Spending more is a bold idea when shops are desperately trying to cut costs in the face of tougher competition and the consumer spending squeeze.

But if retailers look at service as giving them a competitive edge over their rivals, the cost becomes less important than the possible rewards. One only has to try shopping in a Habitat, the home furnishing store – where it sometimes seems that nothing which ought to be on the shelves is, and assistants who know the answers are few and far between – to understand why Storehouse, its parent, has been having problems.

Customer service is fast becoming the new fashion for retailers, in the way that design has been for the last few years. That phase had its drawbacks; every shop in every high street in Britain now looks much the same. Similarly, British shoppers may now be in for a rash of have-a-nice-dayers, but at least assistants may look up from their nail varnish to say it.

Woolworth introduced an "excellence" programme in 1987 under which staff won stars to put on their name badges. The 30,000 staff were once regarded by other retailers as the biggest joke on the high street; even the company itself admits the store had become the benchmark for poor service. Now, with a £5m-a-year training programme, they have improved.

It is hard to put figures on the benefits of better service. But Woolworth claims the training programme has contributed, together with a streamlined range and removal of the worst stores, to a turnround from £5m losses in 1984-85 to pre-tax profits of £45.1m in 1987-88.

It is perhaps a mark of the parent company's confidence in the success of service that Comet, the electrical chain which is another part of the same group, has also smartened up its act. It has introduced a customer code, which includes giving shoppers the name and telephone number of the store manager in case they have a complaint. The stores are checked by inspectors posing as shoppers to make sure standards are kept up.

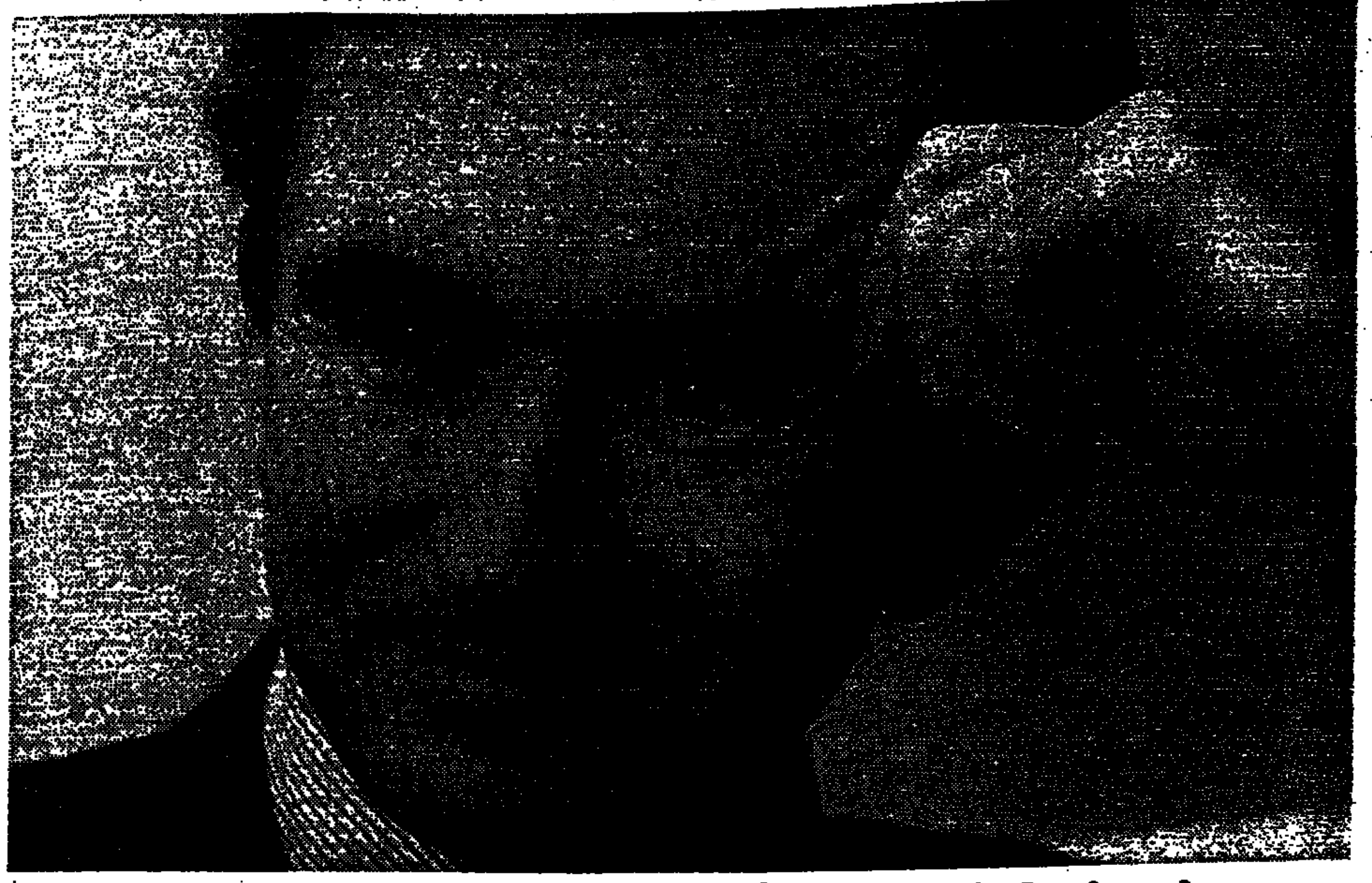
In the 1980s many consumers hanker for some of the aura of the old department stores. Differentiation is the best weapon retailers have in a competitive market and a reputation for service can give a store the edge.

Maggie Urry

THE MONDAY INTERVIEW

A top name in luxury

Paul Betts speaks to Bernard Arnault, chairman of France's Louis Vuitton Moët Hennessy



'Seizing opportunities is a key to success in business'

Bernard Arnault could have become a concert pianist. Playing the piano, he says, remains his favourite pastime and he has a special penchant for the great romantic composers like Chopin and Liszt. But there is nothing romantic about the way Mr Arnault conducts business.

When it comes to running Louis Vuitton Moët Hennessy (LVMH), Mr Arnault displays a single-minded determination and ruthlessness which has catapulted him in barely six months to the top of the largest luxury goods empire in the world. Many businessmen would give their eye teeth to head a group with brand names like Dom Pérignon, Moët & Chandon, Veuve Clicquot, Hennessy, Hine, Dior, Givenchy, Vuitton luggage, not to mention the Céline and Christian Lacroix fashion businesses.

Mr Arnault, the 39-year-old wonder boy of French finance, has not, however, won his battle yet. The French stock market watchdog, the Commission des Opérations de Bourse (COB), is currently investigating share dealings in LVMH which could still undermine his position at the top of the luxury group. The investigation is centred on the unusually large number of shares traded at the beginning of this year just before Mr Arnault took over as chairman. The court could also raise the question of whether Mr Arnault seized overall control and therefore should have made a full bid.

To add to his worries, Mr Henry Racamier, the 76-year-old chief of the Louis Vuitton clan, with about 30 per cent of the company's voting rights, has already challenged the authority of the young chairman barely a month after his accession to the LVMH throne. Mr Arnault, however, regards himself as the boss. In his attempts to wrest total control of the Vuitton side of the business by attempting to secure a majority in the Vuitton management, he has met strong resistance from the veteran but sprightly Mr Racamier.

Life has been made more difficult for Mr Arnault by President François Mitterrand's recent public tirade against stock market speculators, and the President's decision to put the spotlight on LVMH by drawing attention to possible irregularities in the battle for the leading luxury group in the current highly charged political climate in France.

The irony is that Mr Racamier originally turned towards Mr Arnault last year as a potential ally in his power struggle against the urbane Mr Alain Chevalier, the representative of the Moët Hennessy camp and chairman of the group until Mr Arnault took over last month. Mr Chevalier had enlisted the support of Guinness and his old friend, Mr Anthony Tennant, its chief executive. In the end, Mr Arnault, who says that "seizing opportunities is a key to success in business," teamed up with Guinness and between them they accumulated the single largest stake in LVMH with 43.5 per cent of the fully diluted share capital and about 30 per cent of the voting rights.

Mr Arnault stumbled into the luxury goods sector virtually by chance. After graduating from the élite Ecole Polytechnique in Paris, he went back to his home town of Roubaix to work in Ferret-Savinel, the family's construction and property business. In 1982, after the Socialists came to power, he decided to emigrate to the US where he continued working in the property market. "Everybody now agrees that when the Socialists first came to Government it was an economic catastrophe. Fortunately, they realised this quickly and adopted a more normal policy. The arrival of Mr Laurent Fabius as Prime Minister, in particular, symbolised the return of a more realistic policy."

PERSONAL FILE

- **1949** Born, Roubaix. Educated, Ecole Polytechnique, Paris
- **1977-84** Chairman, Ferret-Savinel
- **1984** Chairman, group Boussac Saint Frères
- **1986** Ferret-Savinel becomes Arnault & Associés
- **1987** Launches Christian Lacroix. Acquires Céline
- **1989** Chairman LVMH

Unknown, but with the help of Mr Antoine Bernheim, a managing partner of Lazard Frères who quickly appreciated Mr Arnault's acute business sense, he decided to take over the troubled Agache textile group in 1984. "It will probably amuse you, but it was one of the very first privatisations since the group was more or less under state control."

For Mr Arnault, the first priority was to turn round Agache. "At the time I still had no idea of becoming number one in the luxury business. But I found that this troubled group was a small conglomerate with the Boussac textile business, consumer products including Peaudouce nappies, retailing with the Bon Marché and Conforama, and Christian Dior."

After sweeping restructuring – the group's payroll was cut by half – Mr Arnault returned Agache in the black. "We then had to make a choice of what to do next. We decided that the luxury business around Dior was very promising with strong profit potential. We could not invest in every sector so we decided to disinvest the nappy business and the textiles. But at the same time we expanded in the luxury side, acquiring Céline and launching the Christian Lacroix fashion business."

Even before the LVMH saga, Mr Arnault had become a symbol of a new generation of young French capitalists whose financial ingenuity had started to unsettle the country's traditional business establishment. His detractors claim he is a man "too much in a hurry, and criticise what they call his "property developer" approach to business. But he regards his business generation as reflecting what he calls "the rehabilitation of capitalism in France." The Socialists, he adds, helped to rehabilitate capitalism in France when they embraced more realistic economic policies after 1984. "This rehabilitation of capitalism has coincided with the emergence of a number of capitalistic entrepreneurs. But they must have existed in other periods although they did not receive as much publicity as today."

Apart from the divisions inside LVMH, what gave Mr Arnault his chance to invest and take charge of the company was the simple fact that it had no stable shareholders. "It was for this reason that the manager of the time wanted to find a stable shareholder. Indeed, if a big European group had launched a takeover bid against LVMH, it would have been successful since there was nobody in France big enough to match it."

Mr Arnault controls his stake in LVMH through a joint holding company with Guinness called Jacques Rober. He owns 55 per cent and Guinness has 45 per cent. Although Guinness and Arnault did not know each other before and are still cautiously getting to know each other, Mr Arnault says the union is now "solid and irrevocable." As late as last December, there was speculation that Guinness was backing a plan by the former LVMH chairman, Mr Chevalier, and Mr Racamier of Vuitton to split the group in two. But when it became clear that Mr Arnault had out-manoeuvred his rivals by a two-day stock market blitz in January, Guinness rallied behind Mr Arnault. However, the attitude of Guinness towards the latest power struggle between Mr Arnault and Mr Racamier is likely to be crucial in deciding ultimately whether the ambitious young businessman will succeed in becoming the undisputed boss.

He says there are already close relations between his management team and Guinness and that both companies intend to make the Moët Hennessy and Louis Vuitton merger finally work. "This is a unique group because it brings together a series of brands which are practically all leaders in their field in the world. With Guinness the initial emphasis will be the common development of our wine and spirits businesses. But Guinness is also interested in our luxury products activities." He intends to pursue the policy of running LVMH as a decentralised federation of operating family businesses, some of which are still run by members of the original families, but with a centralised strategic supervision. "A company like Dior or Moët & Chandon cannot be managed like a company which makes babies' nappies. The fact that there is somebody who embodies the business *vis-à-vis* the outside world, as Mr Fred Chandon does for Moët & Chandon, is a tremendous asset."

As for the COB investigation, Mr Arnault says he is very relaxed. "One issue is whether there was insider trading. I bought shares in reaction against an attack on LVMH. I've kept those shares. Moreover, they were bought at an expensive price because the price has since fallen. I therefore can't be concerned by any insider trading charge. The second issue is whether I took control. I have 30 per cent of the votes and I don't think you must confuse management control, which I have because I was unanimously named chairman, with capitalistic control."

Under French stock market regulations, Mr Arnault would have had to offer all shareholders the same price he paid if he had acquired a controlling stake. But he argues that the group's capital remains composite with Arnault and Guinness holding 30 per cent of the voting rights, Vuitton another 30 per cent, and the Moët Hennessy families 20 per cent.

He claims that his management control is comfortable because he has the backing of the Moët Hennessy families with whom relations are "marvellous." The Vuitton camp, however, is likely to try to force the Moët Hennessy families to its cause before vital shareholder meetings in coming months which are expected to provide the opportunity for a major showdown.

Is this piano player simply a financial shark as some of his critics claim? "I regard myself as an industrialist. What interests a lot of economic journalists is movement, when you buy something. But if I have been in all these rapid moves, it is with an industrial target. What interests me now is to manage, if I can, for the next 20 years the industrial future of LVMH."

Blasphemy, obscenity and public order

JUSTINIAN

Few books in modern times can have had such a profound and disturbing impact upon the affairs of an ethnic minority in Britain. Out of the dismaying reaction to Salman Rushdie's The Satanic Verses, there may, at least, be one beneficial outcome for us all in preventing any more intolerance than that exhibited in the burning of literature and death threats to authors who touch on religious sensitivities.

The recent events have revived the flurry of reform proposals which were around at the beginning of this decade to do something about the state of the blasphemy laws in the light of the variety of religious beliefs in a contemporary pluralist society. The clash between Moslems determined to suppress blasphemous libels against their religious beliefs and a Government equally determined to uphold freedom of expression reveal the irreconcilable tenets of Islam and Christianity. Law can and should do something to reduce the inevitable tension.

In the one case of blasphemy in modern times which came to the courts, Lord Scarman heavily supported the extension of the law to protect the religious beliefs and feelings of non-Christians. He perceived the necessity for legislators to respect the differing religious beliefs and practices in this country and also to protect them from scurrility, vilification, ridicule and contempt. Lord Scarman blamed the lack of comprehensiveness of the existing English law on blasphemy, which seeks to cover only Christianity. Blasphemy, he proclaimed, is "shackled by the chains of history".

Blasphemy is a common law offence: that is to say, it has been developed through the centuries by the judges in a case-by-case approach, largely untouched by the legislator's hand. It has passed through three stages.

Originally, prosecutions for blasphemy were based on the allegation that what was complained of tended to sedition and public commotion, and was therefore likely to involve a disturbance of the peace. The basis for this view was that, to the extent that there was no threat to public order, the matter was one exclusively for the ecclesiastical courts.

The Law Commission in its working paper of 1981 observed truly that current public order legislation (updated in the Public Order Act 1986) is perfectly capable of dealing with all situations which would be likely to arise. The requirements of public order are not a sufficiently strong ground for retaining the criminal law to deal with blasphemous conduct.

This has, in fact, been the view of prosecuting authorities who for more than half a century have desisted from using an outmoded and anomalous law. The one recent prosecution was privately inspired and prosecuted by a private citizen without public assistance. The indefatigable moral order campaigner, Mrs Mary Whitehouse, tried to hobble Gay News for its publication of a poem by a professor of English literature which described a Roman centurion's homosexual fantasies about the crucifixion of Christ.

The second stage of the blasphemy law stemmed from a 17th century judicial pronouncement that Christianity was part and parcel of the laws of England and, therefore, to reproach the Christian religion was to speak in subversion of the law. This view was consistently applied as a precedent for convicting persons of what was, in effect, heresy, unaccompanied by any offensive or indecent expressions. Hence the publication in 1819, by Richard Carlile of Fleet Street, of Thomas Paine's Theological Works was held to be blasphemy.

By the end of the 19th century the judges had firmly taken the view that to constitute the offence of blasphemous libel there had to be something indecent or offensive in the words complained of. That concluded the third stage.

Until the recent Gay News case, blasphemy had been defined as a matter relating to God, Jesus Christ, the Bible, or the Book of Common Prayer, intended to wound the feelings of mankind or to excite contempt and hatred against the Established Church. Lord Scarman and two of his judicial brethren, forming the majority decision in the Gay News case, redefined the crime of blasphemy in broad terms of protecting the susceptibilities of only the Christian religion (an incongruity keenly felt by many Christians) and eliminating any need for the prosecution to prove an intention to vilify Christianity. The defence had claimed unsuccessfully that far from vilifying Christianity the poem was an affirmation that Christ's love extended even to homosexuals.

Can the law properly be extended to protect the feelings of the adherents of religions generally? The Law Commission came to the conclusion that there was no means of defining religion with a sufficient degree of certainty. There would be no difficulty in including Islam. But what about Scientology? In his speech to the Moslem community in Birmingham on Friday, the Home Secretary ruled out any extension of the law to embrace other religions.

If not extension, what about extinction? It is worthwhile parliament declaring positively its stance on this highly emotive subject. Publications which are intended to propagate opinions on religious subjects should be statutorily declared not to be blasphemous or profane. If the opinions contain matter which is grossly offensive to a wide audience, the obscenity laws should be adequate to cope with the situation. If they incite others to acts of violence, they are properly the subject of laws protecting public order. Freedom of expression is thereby fully preserved. So would be the tranquillity of pluralist Britain.